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PUBLIC UTILITIES COMMISSION

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF HAWAII

In the Matter of the Application of)) MOLOKAI PUBLIC UTILITIES, INC.)) For Review and Approval of Rate Increases;) Revised Rate Schedules; and Revised Rules)	DOCKET NO. 2009-0048

DIVISION OF CONSUMER ADVOCACY'S
DIRECT TESTIMONY, EXHIBITS, AND WORKPAPERS

Pursuant to the Stipulated Regulatory Schedule approved in Order Approving Proposed Procedural Order, as Modified filed on November 6, 2009 the Division of Consumer Advocacy ("Consumer Advocate") was to file its Direct Testimony and Exhibits on January 6, 2010. Pursuant to its letter dated January 6, 2010, requesting extension of time to file its Direct Testimony and Exhibits until January 13, 2010, the Consumer Advocate submits its **DIRECT TESTIMONY AND EXHIBITS** in the above docketed matter.

DATED: Honolulu, Hawaii, January 13, 2010.

Respectfully submitted,

By Dean Nishina
DEAN NISHINA
Executive Director
DIVISION OF CONSUMER ADVOCACY

INDEX

WITNESS AND REFERENCE			TESTIMONY AND EXHIBITS
DEAN NISHINA	CA-T-1	---	Testimony
	CA-100	---	Educational Background and Experience (6 pages)
	CA-101	---	MPUI's Revenue Requirements & Rate of Return Summary Test Year Ending June 30, 2010 (page 1 of 3) MPUI's Income Tax Expense Test Year Ending June 30, 2010 (page 2 of 3) MPUI's Taxes Other Than Income Taxes Test Year Ending June 30, 2010 (page 3 of 3)
	CA-102	---	MPUI's Average Rate Base Test Year Ending June 30, 2010
	CA-103	---	MPUI's Plant In Service Test Year Ending June 30, 2010
	CA-104	---	MPUI's Accumulated Depreciation Test Year Ending June 30, 2010
	CA-105	---	MPUI's Depreciation Expense (Book) Test Year Ending June 30, 2010
	CA-106	---	MPUI's Accumulated Deferred Income Taxes Test Year Ending June 30, 2010
	CA-107	---	MPUI's Hawaii Capital Goods Excise Tax Credit Test Year Ending June 30, 2010
	CA-108	---	MPUI's Working Cash Test Year Ending June 30, 2010

INDEX

INDEX

CA-T-1
DOCKET NO. 2009-0048

DIRECT TESTIMONY AND EXHIBITS

OF

DEAN NISHINA

THE DIVISION OF CONSUMER ADVOCACY

SUBJECT: POLICY, REVENUE REQUIREMENTS, RATE DESIGN

TABLE OF CONTENTS

DIRECT TESTIMONY OF DEAN NISHINA

I. INTRODUCTION.

Q. PLEASE STATE YOUR NAME, POSITION AND PLACE OF EMPLOYMENT.

A. My name is Dean Nishina and I am the Executive Director for the Division of Consumer Advocacy, Department of Commerce and Consumer Affairs ("Consumer Advocate").

Q. PLEASE STATE YOUR PROFESSIONAL EXPERIENCE AND EDUCATIONAL BACKGROUND.

A. Please see Exhibit CA-100.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I am providing testimony on the Consumer Advocate's policy and all matters related to the recommended revenue requirements associated with the application filed by Molokai Public Utilities, Inc. ("MPUI" or the "Company"),[1] wherein the Company requests Commission approval for an increase of approximately 202% in its present rates. MPUI's proposed allocation of this

[1] The Company filed its application on March 2, 2009. On March 30, 2009, the Consumer Advocate filed its Statement of Position on completeness, wherein the Consumer Advocate objected to the Hawaii Public Utilities Commission ("Commission") finding the application complete since MPUI's application did not include audited financial statements. In the Order Denying Molokai Public Utilities, Inc.'s Request to Submit Its Unaudited Financial Statements in Lieu of Audited Financial Statements filed on April 2, 2009, the Commission required MPUI to file an amended application that included audited financial statements. That amended application was filed on June 29, 2009.

increase will affect existing rates in the following manner:

MONTHLY STANDBY CHARGES

METER SIZE	PRESENT RATES	PROPOSED RATES	PERCENT INCREASE
5/8" or ¾"	$11.25	$34.00	202.2%
1"	$15.00	$45.00	202.2%
1 ½"	$22.50	$68.00	202.2%
2"	$37.50	$113.00	202.2%
3"	$75.00	$226.00	202.2%
4"	$112.50	$340.00	202.2%
6"	$225.00	$678.00	202.2%
8"	$375.00	$1,131.00	202.2%

OTHER MONTHLY CHARGES

DESCRIPTION	PRESENT RATES	PROPOSED RATES	PERCENT INCREASE
Private Fire Protection Rates			
Per Hydrant	$5.25	$10.61	202.2%[2]
Per Standpipe	$3.00	$6.06	202.2%
Others: per in. diameter	$3.75	$7.58	202.2%

CONSUMPTION CHARGES

	PRESENT RATES (PER 000 GALL)	PROPOSED RATES (PER 000 GALL)	PERCENT INCREASE
Water consumption charge	$3.18	$9.6061	202.2%
Bulk Water Sales	$1.125	$3.3984	202.2%

2 Thes Values, including the percentage change is taken directly from the Company's application. It appears, however, that the Company is proposing only a 102.2% increase for its fire protection rates.

Besides the above summarized changes, the Company is also proposing to modify other tariff charges as summarized on page 10 of the application and provided in greater detail on Exhibit MPU 4 (present rate schedule) and Exhibit MPU 5 (proposed rate schedule). The Company is also proposing to introduce an automatic power cost adjustment clause ("APCAC"), which would allow the Company to either increase or decrease the amount of revenues collected from customers based on a corresponding increase or decrease in the cost of electricity incurred as a result of the charges received from the Company's electricity service provider, Maui Electric Company, Ltd. The Company is also seeking authority to establish a purchased fuel adjustment clause ("PFAC") which would allow the Company to pass on the changes in the fuel expenses incurred to pump water. Also, besides the proposed changes to its monthly charge and usage rates, the Company is seeking to modify its reconnection fee by increasing the fee from $75 to $150. Additionally, MPUI recognizes that its proposed increase is significant and has proposed a 2-phase plan to address concerns regarding rate shock. MPUI has proposed that the first increase becomes effective upon the issuance of the Commission's Decision and Order approving the proposed increased rates and charges and the second phase is to become effective six months after the first phase's effective date.

The test period in the instant rate proceeding is the 12 months ending June 30, 2010.

Q. WHAT ARE YOUR AREAS OF RESPONSIBILITIES IN THIS PROCEEDING?

A. I am basically responsible for discussing all areas related to the Company's request, including, but not limited to: policy, sales, customer count and revenues at present rates, operating expenses, rate base, cost of capital, and rate design.

A. INTRODUCTION TO MPUI.

Q. PLEASE PROVIDE A DESCRIPTION OF THE COMPANY.

A. The Commission granted the Company's Certificate of Public Convenience and Necessity ("CPCN") in Decision and Order No. 6834 (filed on October 29, 1981, Docket No. 4112). MPUI's service territory is the west end of Molokai, comprised of approximately 6,800 acres. The Company serves approximately 210 - 220 customers which are comprised mainly of residential type of customers. The currently effective rates were the result of the Commission's Order Approving Temporary Rate Relief for MPUI and Wai'ola O Moloka'i, Inc. ("WOMI") filed on August 14, 2008, in Docket No. 2008-0115 ("Temporary Rate Order").[3] Otherwise, MPUI's last rate proceeding was Docket No. 02-0371.

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3 The currently effective rates actually reflect temporarily approved rates. Docket No. 2008-0115 was a proceeding designed to address the possibility that customers of MPUI, WOMI and Mosco, Inc. (collectively referred to as the "Molokai Utilities") might be without utility service since the Molokai Utilities indicated that service would be terminated. A more detailed history regarding this matter can be found in the Commission's Temporary Rate Order in Docket No. 2008-0115.

MPUI is a wholly owned subsidiary of Kaluakoi Water, LLC, which, in turn, is a wholly owned subsidiary of Kaluakoi Land, LLC. Molokai Properties, Limited ("MPL"), a Hawaii corporation, is the parent of Kaluakoi Land, LLC.

The Company provides its utility water services using plant that appears, in for the most part, to be fully depreciated. The Company's water source is designated as Well 17. From Well 17, water is also delivered to WOMI through a meter at Kualapuu. The remaining water is delivered to the Molokai Irrigation System ("MIS") and water is delivered to treatment facilities where, ultimately, MPUI's customers receive water either through the Maunaloa or Kaluakoi meters.

Of some note is that, as a result of MPL's decision to shutter its operations, the Commission was notified in 2008 that MPUI and WOMI were planning to terminate providing utility services to the existing customers. MPL contended that, as a result of significant and continuing operating losses, MPL planned to dispose of the utility assets since there would be no available source of revenues to subsidize the losses incurred from the utility operations. As a result of this notice, the Commission opened Docket No. 2008-0115 on June 16, 2008. As a result of the analysis conducted in that docket, the Commission authorized an increase of 40.95% in revenues for MPUI and an increase of 121.50% increase for WOMI.[4]

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4 No temporary increase was authorized for Mosco since the analysis suggested that Mosco was profitable.

The Consumer Advocate notes that, beyond MPUI's ability to generate a profit to sustain its operations, there is a significant issue with MPUI's ability to provide service in terms of its ability to access Well 17 and the MIS. In general, due to MPL's decision to terminate its operations on Molokai, adequate steps to ensure that the continuation of the necessary permits to use Well 17 and the MIS were not taken. Thus, at this point, the Consumer Advocate has proceeded with the assumption that MPUI will continue to have access to Well 17 and MPUI because to assume otherwise would mean that the Company is unable to provide service. If there are further developments regarding these issues that occur before the close of this docket, however, I reserve the right to revisit the impact on the instant filing.

B. THE COMPANY'S REQUESTED RELIEF.

Q. WHAT IS THE COMPANY REQUESTING IN THIS RATE CASE?

A. The Company is proposing to use a split test year ending June 30, 2010 and is requesting a revenue increase of $886,259 or an increase of over 201% above revenues at present rates of $439,838. The Company is requesting that it be allowed to earn a 2.0% cost of capital to calculate its revenue requirements.

Since its total revenues are less than $2,000,000, the Company is seeking rate relief pursuant to the requirements set forth in Hawaii Revised Statutes ("HRS") § 269-16(f) and Hawaii Administrative Rules

("HAR") § 6-61-88, which apply to public utility companies that have annual gross revenues less than $2 million. The Consumer Advocate notes that if the request is approved, this would result in the Company's revenues exceeding the $2 million threshold for the small utility definition, but as determined by the Commission in Order No. 21906 filed on July 1, 2005 in Docket No. 05-0124, it is the public utility company's actual gross revenues, and not its pro forma revenues that determine whether the public utility would be classified as a small utility or not.

Q. WHAT ARE THE FACTORS CONTRIBUTING TO THE COMPANY'S REQUESTED INCREASE IN THIS CASE?

A. Based on the information provided by the Company, it appears that the Company's request is largely caused by significant increases in its operating and maintenance expenses that appear to have been mainly caused by changes in its accounting and allocation procedures. As shown by MPU 10, MPU's expenses significantly increased from $838,991 in June 30, 2005 to $1,395,661 in June 30, 2006, and have grown even more since then. In contrast, if one looks at MPU 9.2, the plant additions from June 30, 2008 through June 30, 2010 are relatively nominal. Thus, KWC's request is clearly driven by its increases in expenses.

Q. WHAT ARE THE CONSUMER ADVOCATE'S RECOMMENDED ADJUSTMENTS TO THE COMPANY'S RATEMAKING ELEMENTS AND THE RESULTING REVENUE REQUIREMENTS?

A. Based on the adjustments that are discussed below, the Consumer Advocate recommends that an increase of $448,584 or a 109% increase from revenues at present rates should be implemented.

As a result of the adjustments proposed by the Consumer Advocate, the Consumer Advocate is recommending an overall level of revenue requirements of $858,737, which represents a decrease from the Company's proposed amount. The basis for this recommendation is supported by the discussion to follow.

C. THE CONSUMER ADVOCATE'S GENERAL ANALYTICAL APPROACH.

Q. COULD YOU PLEASE DISCUSS YOUR GENERAL APPROACH WHEN PERFORMING YOUR ANALYSIS OF THE COMPANY'S REQUEST?

A. Normally, when time and resources permit, the Consumer Advocate performs a fairly thorough detailed analysis of the request by analyzing available data that might support the reasonableness of a utility company's request. The Consumer Advocate will examine all of the revenue requirement elements for prudence and reasonableness using available information, information obtained through discovery and research, and also evaluating assumptions and other factors influencing the test year estimates.

It should be noted, however, that the Consumer Advocate is currently experiencing a very heavy workload affecting all industries and finds that its available resources are also becoming more constrained, which leads to a very unfortunate combination. In other words, due to a very heavy workload, my analysis in this proceeding may not be as thorough as it could be.

Q. DOES THIS MEAN THAT THE RECOMMENDATIONS THAT YOU WILL BE OFFERING ARE NOT REASONABLE?

A. No, that would not be a valid conclusion. The approach that I have taken is generally consistent with the approach taken for small utility companies, where the Consumer Advocate focuses on mainly the "big ticket" items, or the items that are the main drivers causing the need for the increase. Thus, as will be discussed in the sections analyzing the various revenue requirement elements, I will usually identify the major items that were identified as a result of a screening analysis that was used to help limit the work required and the number of issues that might be raised. The results will be reasonable, but due to this screening process, it is likely that there are additional adjustments that could have been identified, but were not due to the lack of Consumer Advocate resources.

Thus, if there is no discussion of a particular item, it can be assumed that the Consumer Advocate is not proposing a recommended adjustment to the Company's estimates; it should not, however, be assumed that the Consumer Advocate accepts the assumptions, method of estimation or even the estimate itself. The Consumer Advocate's silence on any given revenue requirement element is meant to limit the issues in this proceeding as well as relieve the workload that the Consumer Advocate currently faces. The Consumer Advocate reserves the right to question any estimate, method, assumption or other factor if necessary in future proceedings.

Q. IN PAST PROCEEDINGS, THE CONSUMER ADVOCATE HAS PROVIDED A GENERAL OVERVIEW OF THE COMMISSION'S REQUIREMENTS FOR SUPPORTING A REQUEST TO INCREASE RATES AND DISCUSSED THE GENERAL REGULATORY PRINCIPLES THAT GUIDED THE ANALYSIS.[5] DID YOUR ANALYSIS DIFFER?

A. No. While the Consumer Advocate's resources are strained, I did not deviate from the regulatory principles that generally guide the Consumer Advocate's analysis. In the course of the discussion offered below, I will make various references to regulatory tenets such as developing reasonable, normalized estimates of revenue requirement elements and the need to properly consider

5 See, e.g., CA-T-1, pages 23 -35, filed in Docket No. 2007-0180.

items that will occur within the test year (as opposed to events or activities that might occur outside of the test year).

Thus, even though the analysis in this proceeding is not as thorough as I would prefer, I have endeavored to offer a reasonable analysis for the Commission's consideration.

II. **SIGNIFICANT MATTERS.**

Q. AS A RESULT OF AN ANNOUNCEMENT RELATED TO THE INTENT TO TERMINATE ALL UTILITY SERVICES, THE COMMISSION OPENED DOCKET NO. 2008-0115, WHICH ANALYZED WHETHER TEMPORARY INCREASES FOR MPUI, WOMI AND MOSCO WERE NECESSARY AND, IF SO, THE NECESSARY AMOUNT OF THE INCREASE. THE TEMPORARY RATE INCREASES AUTHORIZED BY THE ORDER APPROVING TEMPORARY RATE RELIEF FOR MPUI AND WOMI ARE STILL IN EFFECT. PLEASE DISCUSS THIS MATTER.

A. The Consumer Advocate does not take lightly the possibility that a utility company might terminate utility services. Thus, as articulated in the Statement of Position filed on June 23, 2008 by the Consumer Advocate, the Consumer Advocate is well aware of the dilemma associated with granting an increase that appears necessary for a utility company to maintain services even though that increase might make rates essentially unaffordable for the utility customers. Thus, the current filing, which actually seeks to increase rates beyond the temporary increase already granted in Docket No. 2008-0115 raises additional questions and requires the Company to provide more substantive support to not only justify the approved temporary increase, but also the additional amounts being sought by the Company.

It is for this reason that the Consumer Advocate had recommended in its Statement of Position Regarding Completeness of Application that the Commission should require audited financial statements as part of its application to provide a reliable starting point. Given the magnitude of the requested increase and the nature of the increase, there is a concern that the support provided may not adequately justify the requested increase. As will be discussed later in my testimony, there are other items that are in the record to further question the basis for the Company's request.

Another matter that will be discussed in further detail will relate to the various changes in the expenses recorded at the utility level that were purportedly previously recorded by MPL, but should have been recorded by the utility companies.

Q. BESIDES THE ISSUE RELATED TO MPUI POSSIBLY TERMINATING SERVICES, ARE THERE ANY OTHER MATTERS THAT BEAR MENTIONING?

A. Yes. There are issues related to whether MPUI will be capable of continuing to provide service. To explain, MPUI's source of water is referred to as

Well 17 and MPUI relies on the Molokai Irrigation System ("MIS") to transmit the water from Well 17 to many of its customers. While not disclosed in any detail in its application or testimony, MPUI does not represent, at this time, to have a valid permit to draw water from Well 17.

Q. WHY IS THIS A SIGNIFICANT ISSUE?

A. Since Well 17 is the source of water for MPUI to distribute, if MPUI is not allowed to draw water from Well 17, MPUI would not be capable of providing the utility services with which it is tasked. MPUI's response to CA-IR-5 and the related Attachment CA-IR-5(a) provides the background and current status associated with the dispute surrounding Well 17. To summarize, it appears that since MPL did not anticipate that it would be in the utility business for much longer, it did not follow the appropriate measures to ensure that MPUI's ability to draw water would continue. While MPUI, apparently, is now pursuing the measures necessary to obtain the proper authority from the Water Commission, the resolution of those measures may not be known for some time.[6]

6 MPUI's response to CA-IR-5(b) indicates that it may take three to seven years to resolve.

Q. IS THERE A SIMILAR ISSUE WITH MPUI'S USE OF THE MIS?

A. Yes. Similar to the Well 17 matters, MPUI's continued use of the MIS, which is the main transmission infrastructure relied upon by MPUI, is in question. MPUI's response to CA-IR-6 and the related Attachment CA-IR-6(a) provides the background and current status associated with the continued access of the MIS by MPUI. Until certain requirements are completed, MPUI does not appear to have legal access to MIS. Similar to Well 17, MPUI does not seem to have a clear contingency plan that can be implemented in the short term to address any concerns that might be raised unexpectedly.

Q. IS THERE ANY OTHER ISSUE WITH THE MIS?

A. Yes. Various observations were made in Docket No. 02-0371, MPUI's last rate proceeding, regarding MPUI's use of the MIS. Those observations included the appearance that reliance on the MIS unnecessarily increases the cost of service to MPUI's customers. Use of the MIS appears to unnecessarily increase the cost of service by:

- Increasing the amount of water that is not productive;[7]
- Increasing the operating and maintenance expenses (such as electricity expenses incurred to pump the water) due to pumping more water than necessary due to the excessive water losses; and

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[7] There were various factors that apparently contributed to the observed differences between the amount of water pumped from Well 17 and actually consumed by MPUI's customers.

- Requires additional treatment since potable water drawn from Well 17 is introduced into a surface water transportation system that will then increase the amount of treatment required to make the water meet the necessary requirements to be used for potable purposes.

As a result of these observations, various recommendations were made in Docket No. 02-0371. One such recommendation was that MPUI was supposed to investigate and make the necessary upgrades to eliminate water loss and reduce the cost of service. This is recognized by the Commission's Decision and Order No. 20342, filed on July 18, 2003, on page 21, where the Commission orders MPUI to:

> [p]rovide quarterly reports to the commission and the Consumer Advocate . . . on the status of the upgrade of its facilities, scheduled to begin in July 2003, including information on the progress of the construction of the new transmission facilities, and any other steps implemented by MPUI to reduce the amount of water loss and further upgrade its water system.

Thus, given MPUI's continued reliance on the MIS, it is not clear that MPUI fully complied with the intent of the Commission's decision and order and the assertions that MPUI made in Docket No. 02-0371 regarding its intent to address the water loss issue and the installation of infrastructure, including a new transmission line to eliminate MPUI's reliance on the MIS. While MPUI has apparently made certain investments whose costs are reflected in rate base,[8] those investments are not to the extent that was communicated in the last Commission proceeding and this matter still needs to be addressed.

Q. ARE THERE ANY OTHER ISSUES THAT SHOULD BE MENTIONED?

A. Yes. Another issue that needs to be considered is the possibility that there is excess capacity based on the current design of the system and the existing customer base. Due to the losses of customers, especially the larger customers who used more water and more of the water system, the remaining customers will not require the system, as currently built, to meet the demands of the remaining customers. Allocating the fully embedded cost of service amongst the remaining customers will likely result in a per customer charge that is higher than reasonable. The result is that an excess capacity adjustment might be required.

Briefly, there are two general types of excess capacity. One type relates to management's decision to build plant with capacity that greatly exceeds any reasonable estimate of the total demand that might be generated within its service territory. That type of excess capacity is likely never to be recoverable from customers in that service territory because it would be deemed to be an imprudent decision.

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8 See, e.g., the water treatment plant installed in 2005, which apparently reduced the total backwash from a 30% of total production water to 10% waste. See responses to CA-SIR-2 and CA-IR-7 and -64 for more detail on this particular plant item.

Another type of excess capacity, however, relates to a timing difference between the reasonable forecasted demand by customers in the service territory and the capacity of plant that is placed in service. Until the realized demand equals the total forecasted demand, part of the plant capacity associated with meeting the total forecasted demand may not be recoverable from ratepayers in the short term, but when the total demand is realized, that plant capacity will be recoverable from ratepayers. Just as in a competitive market, where the customer base may increase or decrease, a vendor will not automatically increase its prices because its customer base may decrease dramatically. If it did increase its prices to fully recover its fixed costs, it would be likely to lose even more customers to other competitors. Put differently, a company might build capacity to serve 100 customers, but when its customer base is only 50, it would not seek to recover all of its costs from only those 50 customers because those customers would be paying twice what should be charged. And, in this simple example, if the number of customers decrease to 25 or even 1, the expectation to recover all costs from the smaller customer base is even less reasonable.

The Consumer Advocate is recommending that a break-even approach, or also referred to as the no rate of return ("ROR") approach, be implemented for this rate proceeding. Thus, this will impact the estimated income if the Commission adopts the Consumer Advocate's recommendation and minimize the importance of the rate base if there is no ROR to be applied to the net rate base. However, there is still the determination of the appropriate depreciation to be used in the instant proceeding. This issue will be discussed further in the depreciation section of my testimony.

And, while we are discussing potential factors that might affect depreciation, I feel obligated to point out that there might be an issue with the reubuttable presumption that certain parts of the investments proposed to be included within the ratemaking process may have already been recovered through other means. This presumption may be applicable for the Company since it appears that, historically, some of the costs supposedly attributable to the Company were paid for by other affiliated entities and some of those costs might have included capital items. To the extent that the costs related to these capital items were paid for and then written off as an expense by an affiliate, it would be inappropriate for the Company to be allowed to recover a return of or on the item since value (in the form of a tax write-off) may have already been realized. As will be discussed in the income tax expense section, there are a number of items that the Company cannot reconcile between its tax and book records. Thus, the possibility that some of the items reflected for book purposes have already been written off for tax purposes exist. If there are plant items whose value or cost has already been received by the Company or its affiliates, depreciation for those plant items should not be recoverable from the customers.

Q. AS WILL BE DISCUSSED IN GREATER DETAIL IN THE INCOME TAXES SECTION, YOU ARE RAISING AN ISSUE WITH WHETHER THE CURRENT RATE REQUEST IS ACTUALLY COMPLETE AND REFLECTS RELIABLE INFORMATION. COULD YOU BRIEFLY EXPLAIN YOUR POSITION AND THE POSSIBLE RAMIFICATIONS?

A. Certainly. MPUI now recommends that all income tax expense and accumulated deferred income taxes ("ADIT") be removed from the test year for rate setting purposes because of an inability to reconcile certain items between its book and tax accounting records. This raises a number of questions that cast doubt on whether any determination in the instant proceeding will produce reasonable results, especially if ADIT balances which should generally reduce the cost of service are eliminated due to a lack of support. As such, I have raised the possibility that the Commission may deem that the instant request should be suspended until the matter can be addressed and/or the application should be dismissed. If, however, the Commission believes that it is reasonable to proceed, I am still providing testimony and recommended adjustments to certain revenue requirement elements for the Commission's consideration in order to help protect consumers' interests.

I realize that the potential impact on the overall revenue requirements related to the income tax elements might be nominal, but until the matter is resolved, it is uncertain what the actual impact should be. Furthermore, I realize that the Consumer Advocate filed a statement of position on the completeness of application, which indicated that the application was complete, but that was before investigation yielded the finding that reliable tax related information and estimates were not provided.

III. <u>REVENUES, SALES AND CUSTOMER COUNT</u>.

Q. AS SET FORTH ON MPU 6 OF ITS AMENDED APPLICATION, MPUI HAS FORECASTED $439,838 OF TOTAL OPERATING REVENUES AT PRESENT RATES. THIS ESTIMATE IS COMPRISED OF $53,228 OF MONTHLY CUSTOMER CHARGES, $385,410 OF WATER USAGE CHARGES, AND $1,200 OF LATE FEES. WHAT SUPPORT HAS THE COMPANY OFFERED FOR THESE ESTIMATES?

A. The Company has offered various exhibits and workpapers to support its estimated usage and customer counts for the test year. However, the data that has been provided has not always been provided in a clear and easily understood format. For instance, while MPU 11 clearly indicates that it reflects the number of customer bills (see column 2) as part of the exhibit, the supporting schedules, such as MPU 11.1, indicate that the customer count for usage billing is being provided. Yet, the numbers reflected on MPU 11.1 do not appear to actually reflect customer count, but the number of customer bills. Other examples include how the Company is apparently projecting the use of

2,568 bills in the test year[9] on MPU 11, but on the very next schedule, MPU 11.1, is projecting that there will be 2,560 bills excluding Kualapuu (although it is labeled as *number of customers for usage billing*) on page 2 of that schedule. On the very next page of that same schedule, however, the Company seems to be suggesting that, with Kualapuu, there will be 2,572 (line 25, column 5) customer (or customer bills), but the supporting numbers right below suggest that there should be 2,582 customers or customer bills for the test year.

In response to various information requests, the Company has offered clarification on some of these apparent inconsistencies or discrepancies. It appears, however, that further investigation might be required. For instance, the additional data provided in response to CA-IR-82 and CA-SIR-1 does appear to support the Company's suggestion that sales have been decreasing since the information provided in these responses should a steady decline in the gallons billed. However, it is not clear that the Company's forecasted decrease in revenues should be accepted.

9 This is obtained by adding the number of bills per customer type on MPU 11.

Q. WHY DO YOU ASSERT THAT THE COMPANY'S FORECASTED REVENUES AND SALES MAY NOT BE REASONABLE?

A. A clear example of why the Company's forecasted level of revenues is not reasonable is that even though the sales may have declined, it has not been as significant as the Company has forecasted. The Company's test year forecasted level of sales as set forth on MPU 11 is 112,000 thousand gallons with 26,000 thousand gallons for water delivered to WOMI. However, for the 12 months ended June 30, 2009, the Company reflected 155,047 thousand gallons of sales.[10] Furthermore, for the four months ended October 31, 2009, the reported sales reflected consumption of 59,464 thousand gallons, which, when annualized, represents 178,392 thousand gallons, which would be an increase in consumption.[11]

Furthermore, when looking at the customer count, notwithstanding the termination of certain commercial activities, it appears that the number of customer bills may have increased over the recent history. In looking at the information provided in response to CA-IR-82(c)/CA-SIR-1, the Company's

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10 Response to CA-IR-82(c)/CA-SIR-1(d).

11 I acknowledge that annualizing the four months ended October 31, 2009 should not be taken to reflect a reasonable expectation of activity over a full 12 months. Given differences in seasons, consumption patterns and other factors, the consumption levels may vary from month to month, such that the actual recorded usage may differ significantly from the annualized value. The purpose of this discussion and reference, however, is to point out that it appears that the actual usage may not be as low as originally forecasted by the Company. Furthermore, the Company may have inadvertently double-counted the activity related to the 1.0" meter (201). If restated for the possible double-counting, the result is 51,486 for four months, or annualized activity of 154,458, which is still greater than the original forecast.

data show that for the fiscal year ended June 30, 2007,[12] the total number of customers (or customer bills) was 2,342; for June 30, 2008, the total number of customers (or customer bills) was 2,466;[13] and for June 30, 2009, the total number of customers (or customer bills) was 2,532.[14] While the year ended June 30, 2010 is not yet complete, the four months ended October 31, 2009 is 838,[15] which when annualized, represents total customers, or customer bills, of 2,514.

In addition, the Company has forecasted decrease sales and customer count and, thus, has concluded that revenues should decrease as well. It should be noted, however, that the recorded revenues for the 12 months ended June 30, 2009 was $670,375,[16] which, while lower than the recorded activity for the 12 months ended June 30, 2006 and 2007, is definitely higher than the Company's recorded June 30, 2008 revenues of $647,619, and the forecasted test year level of $438,638. Part of the difference will be related to the use of the currently effective rates, as approved in Docket No. 2008-0115

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12 It should be noted that the Company's schedule actually reflects "Fiscal Year Ended 6/30/08" for all of the pages, but this appears to be a formatting error. See Attachment CA-IR-82(c)/ Attachment CA-SIR-1(d) page 5 for the 2007 total of 2,342.

13 See Attachment CA-IR-82(c)/ Attachment CA-SIR-1(d) page 7 for the 2008 total of 2,466.

14 See Attachment CA-IR-82(c)/ Attachment CA-SIR-1(d) page 9 for the 2009 total of 2,532.

15 See Attachment CA-IR-82(c)/ Attachment CA-SIR-1(d) page 3 for the total of 838.

16 Attachment CA-IR-54 (Part A).

as compared to the rates approved in Docket No. 02-0371, but it is not clear that the entire difference is related to the temporary increase that was granted.

Q. PLEASE IDENTIFY YOUR RECOMMENDED ADJUSTMENTS AND THE BASIS FOR THOSE ADJUSTMENTS.

A. One of the adjustments that I have made is to the forecasted amount of sales. My test year estimate reflects the use of the most recent 12 months' worth of data. I believe that this approach is very conservative since it relies upon actual data and does not attempt to extrapolate, either upwards or downwards for trends that are difficult to support at this time. Due to all of the recent changes and factors affecting customers and their usage in MPUI's service territory, relying heavily on historical data and trends may produce somewhat suspect results. I believe further investigation would be useful to verify the reasonableness of using the most recent 12 months as representative of normalized levels, but since I am proposing that measures should be taken to minimize the amount of time between MPUI filings, I contend that it would be acceptable to use the data from the most current 12 months as the basis for this test period. This results in total sales of 126,800 thousand gallons, instead of the Company's 138,000 for water use.

For the customer bill count, I am proposing that 2,520 should be used, which is a reduction of about 48 bills. This amount is also based on the data from the most recent 12 months. For the same reasons articulated related to water sales, relying on a greater set of historical data may not yield reliable results and, if MPUI does not wait six to seven years (or more) between rate filings, relying upon the most recent 12 months of data should be reasonable.

In addition, I note that the actual late fees recorded as of June 30, 2009 was $1,322.[17] This is not unexpected since the current economic conditions might result in a sustained period within which payments may be later than usual. Thus, for purposes of the test year, I am recommending that the level of $1,300 be used, which is only an increase of $100 over the Company's test year estimate.

The resulting estimated revenues at present rates are $410,153.

IV. EXPENSES.

A. LABOR EXPENSES.

Q. THE COMPANY HAS FORECASTED A TOTAL OF $209,865 FOR THE TEST YEAR. AS PROVIDED IN GREATER DETAIL ON WORKPAPER MPU 10.1, THIS AMOUNT IS RELATED TO THE SALARIES, WAGES, BENEFITS AND PAYROLL TAXES ASSOCIATED WITH 8 EMPLOYEES. DO YOU HAVE ANY COMMENTS ABOUT THIS PROPOSED EXPENSE?

A. Yes. As illustrated on MPU 10.1, there have been a number of changes that have apparently affected the expense. The total expense recorded for

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[17] Attachment CA-IR-54 (Part A).

salaries and wages for the years ended June 30, 2004 and 2005 were $85,045 and $107,400, respectively. As explained by Mr. O'Brien, however, the appropriate level should have reflected expenses that were being recorded as cost of sales. Thus, on MPU 10.1, beginning in the year ended June 30, 2006, the Company has reflected the charges that were previously classified as cost of sales for comparative purposes. This results in the recorded levels increasing significantly for the years ended 2006 through 2009.

I also noticed that even though the recorded expense doubled between 2005 and 2006, the total amount decreased somewhat in 2007 and 2008, but the Company contends that a reasonable estimate for the test year should be $209,865, which is about $54,000 higher than the recorded 2008 value.[18]

Q. DO YOU HAVE ANY RECOMMENDED ADJUSTMENTS?

A. Yes. I have a few adjustments to recommend for this expense category. First, the Company has included a wage increase of 3.0% in the test year estimate. I have removed that increase from the forecasted test year amount. Given the current economic conditions, including an increase in wages for a utility company's employees when its customers are likely to be facing the prospects of receiving pay decreases and/or losing their jobs is unreasonable.

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18 As reflected in its response to CA-IR-54, the actual recorded expense for labor, payroll taxes, & employee benefits was $168,311. This amount does not agree with the support provided in workpaper MPU 10.1 and further investigation would be necessary to determine why the differences occur.

In addition, I am removing the amount of $20,800 associated with the eighth employee, as identified on workpaper MPU 10.1. While the Company has indicated that the position was necessary for maintenance projects, it is not clear what type of projects require another position and it is also unclear whether the Company has clearly discussed and outlined its maintenance program such that the Company has justified the need for another employee.[19]

I also recommend that the level of medical and dental benefits be reduced. It is my understanding that, other than the family portion for dental coverage, the Company is responsible for paying all premiums for the other benefits.[20] This is a very generous benefits package as most other employers require employees to contribute at least some payment towards any benefits. Requiring ratepayers to compensate for virtually all benefits except for the family portion of dental coverage appears excessive compared to other utilities' employee benefits plans regardless of economic conditions. For purposes of the test year, I have reduced the expenses by 50%, but admit that there is no substantive basis for this recommended percentage other than as an equal sharing between the Company's owners and its customers for the employee benefits. If the Company's management wishes to cover virtually all

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19 In addition, in Docket No. 2009-0049, WOMI has indicated that it does not intend to fill what appears to be the position in question. Response to CA-IR-26 in Docket No. 2009-0049. Thus, MPUI's response to CA-IR-31 appears to be inconsistent with the response in Docket No. 2009-0049.

20 Response to CA-IR-35(c).

benefits with little contribution from the employees, then the Company's management should contribute more to support its decision.

Additionally, I have also reflected adjustments to the payroll taxes associated with the proposed reduction in the salaries and wages.

Finally, I would like to comment that I still have a general concern about the allocation and attribution process that is used to charge expenses to each of the utility companies. This general concern is based, in part, upon the significant changes that are observed when comparing the various recorded expenses during the periods ended June 30, 2004 through 2009. Additional work may be necessary to obtain a level of confidence related to the charges that are allocated and attributed to the utility companies from MPL. If the Commission is inclined, this might be an area where a management audit and/or time and motion study should be considered. Any such study should be done at the Commission's direction regardless of whether the cost is at the ratepayers' or Company's expense. Unless the cost of the study is exorbitant, the benefits of having such a study leans towards providing the confidence in the allocations as well as the possibility that the finding of the study might be that the allocations are inappropriate and the resulting reduction in the allocated expenses might be sufficient to cover the expenses of the study within a few years.

B. FUEL AND POWER EXPENSE.

Q. THE COMPANY HAS PROJECTED $513,591 OF FUEL AND POWER EXPENSE, WHICH IS COMPRISED OF $231,067 OF ELECTRIC CHARGES AND $282,524 OF FUEL EXPENSE. ARE THE COMPANY'S PROPOSED EXPENSES REASONABLE?

A. In general, yes. However, I recommend that certain adjustments should still be made. Those adjustments are as follows:

- For electricity expenses, the Company has forecasted the expense by using a "pro forma" estimate of the electricity that will be used. MPUI has not relied on its estimated level of sales and the associated kWh that might be consistent with water sales by evaluating the amount of kWh consumed per unit of water pumped.[21] I recommend that the forecasted electricity consumption should be related to the forecasted sales used for the test year.
- For both fuel and electricity, the total lost and unaccounted for water percentage should be limited to 10%, even though the actual experience may be higher. The basis for this adjustment factor has been articulated in various cases, including Docket No. 02-0371. For brevity purposes, I will not duplicate the entire discussion offered in Docket No. 02-0371, but incorporate by reference the discussion in that

21 Response to CA-IR-37.

docket and contend that those same arguments are still applicable. Given the need and scarcity of water, it is important that water utility companies strive to reduce waste. Thus, any calculation of projected water to be pumped should use, at a maximum, a 10% factor between the amount sold and the water pumped.[22]

- The Company has requested the ability to implement automatic adjustment surcharges for its electricity and fuel expenses. As will be explained in further detail in the rate design section, I am recommending that the Commission disallow both of these surcharges. If this recommendation is adopted, it will emphasize the need to use reasonable values for the unit cost for both the electricity and fuel expense when setting base rates.[23] Thus, I am recommending that more updated unit values be used for the purposes of the test year fuel and electricity expenses.

The adjustments associated with these recommendations are reflected on the CA-111 and results in a total of $303,680, which represents a decrease of about $210,000.

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22 As discussed in Docket No. 02-0371, it may be possible that a company such as MPUI might characterize certain water losses as "lost and unaccounted for" and other water losses as being associated with the MIS contract, water treatment or other reasons. The Consumer Advocate contends, however, that the combined losses should be set at a total of 10%.

23 If the automatic adjustment surcharges are approved, the need to select reasonable unit values for the fuel and electricity expense is reduced since any difference between the unit value used in setting base rates and the actual cost will be either returned to or recovered from ratepayers.

C. MIS RENTAL EXPENSE.

Q. YOU HAVE RAISED AN ISSUE WHETHER THE COMPANY SHOULD BE RELYING UPON THE MIS AND HAVE RECOMMENDED USING AN UNACCOUNTED FOR AND LOST WATER FACTOR THAT ESSENTIALLY ASSUMES THAT THE COMPANY IS NOT RELYING UPON THE MIS. ARE YOU RECOMMENDING THAT THE COMMISSION SHOULD DISALLOW ALL MIS EXPENSES?

A. No. While I believe that it might be reasonable to recommend that the MIS rental expense should be disallowed, I contend that if I were to make this type of recommendation, I would have to include estimated plant and/or expenses associated with the transmission of the water from Well 17 to its customers. Without the benefit of necessary supporting data on any such estimated plant and/or expenses, I am not making any recommendation to remove or adjust the rental expenses associated with the Company using the MIS.

D. MATERIALS AND SUPPLIES.

Q. THE COMPANY'S FORECASTED LEVEL OF MATERIAL AND SUPPLIES IS $85,583, WHICH AS PROVIDED ON MPU 10.5, IS ESSENTIALLY THE SUM OF THE FIVE YEAR AVERAGE OF MPU DIRECT EXPENSES AND THE THREE YEAR AVERAGE OF THE MPU DIRECT CHARGES PREVIOUSLY CHARGED FROM MPL. DO YOU HAVE ANY CONCERNS WITH THIS RECOMMENDATION?

A. As already explained above, I am concerned that a change in accounting policy can result in such a dramatic change in the Company's expenses. The Company's Attachment CA-IR-44(a) contends that the change in procedure did not change the amount incurred on behalf of the Company or the amount that should have been charged to the Company. That being said, however, when this change in procedure occurred, in 2006, the change is noticeable. If one looks at MPU 10, which is the historical summary from 2004 through 2008, there is an almost 100% increase in the total amount of expenses recorded by the Company, where the total expenses for the year ended June 30, 2005 was $838,991 and for the year ended June 30, 2006, the total expenses were $1,395,661. For the periods ended June 30, 2007 and 2008, total expenses exceeded $1.5 million. So, when the Company contends that the change in procedure did not affect the amount that should be charged to or attributable to the Company, this suggests that MPL or other affiliates were absorbing a significant amount of expenses[24] or that, contrary to the Company's assertions, the change in procedure did result in the Company being charged with more expenses since, prior to the change in 2006, the recorded levels of expenses were much lower as compared to the levels recorded after 2006.

Furthermore, in trying to evaluate the veracity of the Company's assertions, I am encountering additional questions that require further investigation. For instance, the Company's response to CA-IR-54 was supposed to provide each of the MPU 9, 10, and 11 schedules updated to reflect information through August 2009. If one compares the "materials and supplies" line item on Attachment CA-IR-54 (Part A) to the MPU 10, however, the activity levels have apparently changed. For illustrative purposes, I provide the following table.

Description	MPU 10	Attach CA-IR-54	Difference
6/30/04	5,891	17,956	12,065
6/30/05	7,595	25,017	17,422
6/30/06	86,955	101,927	14,972
6/30/07	73,367	86,869	13,502
6/30/08	80,167	92,255	12,088
6/30/09	(not provided)	29,799	Not applicable

24 Such a business practice does not reflect reasonable expectations. As is discussed elsewhere in my testimony, this gives rise to the question of whether the presumption that much of the expenses and investments made in the utility company might have been written off in consolidated income tax expenses or possibly recovered through other means.

Furthermore, I attempted to trace back the support provided as Attachment CA-IR-44, Parts B through D to the amounts listed on MPU 10.5 and could not always reconcile the totals. For the Fuel for Vehicles charged from MPL, the amounts matched. If, however, one totals the net change amount for M&S items for 2008, the total is $66,939.34, which does not agree with $67,011 identified on MPU 10.5. I was also unable to reconcile the 2007 numbers as well.

It is for this reason that I have suggested that the Commission may want to consider a management audit and/or time and motion study to determine whether: 1) are all of the purported activities and expenses are actually attributable to the Company; and 2) whether there might be more efficient and productive means by which to conduct business, which might reduce the total cost of service.

Q. DO YOU HAVE A RECOMMENDED ADJUSTMENT FOR THIS LINE ITEM?

A. Yes. Until the differences between the levels reflected on MPU 10 and Attachment CA-IR-54 can be explained, it is not clear what data should be relied upon to determine the test year estimate. Also the questions related to the amounts purportedly incurred on behalf of the Company appear to require further investigation. I am recommending this adjustment only for the materials and supplies. While adjustments to remove all of the MPL charges could be made, materials and supplies, more so than any charged direct or indirect labor and indirect materials should be fairly simple to record and attribute the proper cost assignment. MPL's failure to properly charge direct materials is puzzling. Thus, I am proposing to disallow the MPL charges, which translates into a downward adjustment of $71,573, but I remain receptive to additional information and explanation to justify a different level.

E. REGULATORY EXPENSES.

Q. THE COMPANY HAS INCLUDED $55,000 OF REGULATORY EXPENSES. THIS AMOUNT IS BASED ON A THREE-YEAR AMORTIZATION PERIOD AND, THUS, REFLECTS AN ESTIMATED TOTAL OF $165,000 OF RATE CASE EXPENSES FOR THE INSTANT PROCEEDING. DO YOU HAVE ANY COMMENTS ON THIS ESTIMATE?

A. Yes. As it relates to the proposed amortization period, I do not have any recommended adjustments. While history does not support the reasonableness of the Company's assertions regarding the timing of its rate applications,[25] I believe that it is probable that MPUI will seek to file another rate application sooner, rather than later, especially if the Commission adopts most of the recommendations offered by the Consumer Advocate, such as not

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[25] In Docket No. 02-0371, MPUI's last rate proceeding, the Company contended that it would file another application in two years. However, it can be observed that MPUI did not file another application in two years since, other than the temporary increase granted in Docket No. 2008-0115, this is the first application filed by MPUI since Docket No. 02-0371.

allowing a ROR. Thus, using a three-year amortization period appears to be a reasonable value for the instant proceeding.

As it relates to the estimated costs to be incurred by MPUI, the Company's response to CA-IR-49 appears to suggest that MPUI may seek to increase the total estimate associated with regulatory expenses. As of the date of the response to CA-IR-49(a), MPUI appears to have incurred almost $88,000 for the preparation and filing phase, as compared to the budget of $62,000. In addition, while the discovery and settlement phase is not yet complete, the Company indicates that it has already incurred over $70,000, while it had budgeted only $63,000 for that phase.

In its response, the Company also asserts that it did not anticipate multiple motions for intervention and that it did not anticipate the need to submit audited financial statements. The Consumer Advocate acknowledges that audited financial statements are not generally required from small utility companies by the Commission, but given the Company's earlier intent to terminate services, the Commission's requirement should not have come as a major surprise. Similarly, given the possible threat of having services terminated, having a greater interest by possible intervenors or participants also should not come as a surprise.

That being said, it is not clear that the preparation and filing phase should have exceeded the budget by over 40%. If the underestimation was caused by the requirement to produce audited financial statements, I question whether those costs should be recoverable as rate case expenses. Generally, a utility company must generate financial statements and the production of those statements as part of any application with the Commission should not result in significant additional costs. For small companies with affiliates, it is possible that an independent accounting firm will not be engaged to conduct audits. For companies with parent companies that are audited, however, it is not clear why the audit of those parent companies would not entail an audit or review of subsidiary financial statements as part of the consolidation process. Thus, if operations the size of Molokai Ranch did not require the production of audited financial statements, even if for financing purposes, that would be unusual.

Q. DO YOU HAVE ANY RECOMMENDED ADJUSTMENTS TO THE COMPANY'S ESTIMATE?

A. No. Normally, the Consumer Advocate recommends that the costs associated with the hearing phase should be disallowed since there has been a long history of the Consumer Advocate working with small utility companies to develop stipulated settlement agreements to reduce the overall costs that might be incurred, while still producing reasonable results in the interests of both the customers and the utility company. In this instance, however, as noted earlier, given the Company's earlier indications that it was going to terminate services and the intervention by other parties, the likelihood of a settlement and no evidentiary hearing is decreased. As such, I am not recommending an adjustment at this time. If, however, a settlement can be reached, I assume that MPUI will be receptive to discussing the need to modify the estimate associated with regulatory expenses.

F. INCOME TAXES, TAXES OTHER THAN INCOME TAXES AND OTHER RELATED MATTERS.

Q. THE COMPANY'S RESPONSE TO CA-IR-28 INDICATES THAT THE COMPANY IS PROPOSING TO REMOVE ALL INCOME TAX ELEMENTS FROM THE INSTANT RATE PROCEEDING. DOES THIS CONCERN YOU?

A. Yes, for a number of reasons. First, as a brief summary, the Consumer Advocate noted a number of apparent discrepancies between the values offered by the Company as its tax and book amounts for various plant items. When asked to reconcile and explain the various differences, the Company's response indicated that it could not reconcile the differences and recommended that all income tax elements be removed from the rate proceeding.[26]

This admission raises a question about the accuracy and reliability of the revenue requirements associated with the numbers in question. The Company asserts that, while sufficient questions exist to raise doubts regarding the tax accounting records, the Company has more than adequately

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26 MPUI's Attachment to CA-IR-28(b).

supported the reasonableness of the book accounting records. The Consumer Advocate does not share the apparent confidence that the Company is attempting to convey. The Consumer Advocate contends that it is the utility company's responsibility to verify the accuracy and maintain the reliability of both book and tax records.

Q. DOES THE PROPOSAL TO REMOVE ALL INCOME TAX ELEMENTS REPRESENT A REASONABLE REGULATORY APPROACH?

A. No. I do not believe so. It might be argued that removing the projected income tax expense, which was only $4,790 on MPU 7, is reasonable since, if the Company is not allowed or able to earn any income, there would be no income tax expense. It might be further argued that no deferred income tax expense is appropriate since if there is reasonable doubt about the Company's ability to earn income, deferred income tax benefits may not be realized.[27]

While the Company's argument might appear reasonable at face value, the argument should not be deemed reasonable for the following reason. It has been argued by utility companies in the past that net operating losses, or NOLs, are the utility company's assets, since the utility company suffered losses rather than seeking to increase rates to generate sufficient income to cause income taxes to be payable. Thus, the utility company asserts that it, or

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27 See, e.g., response to CA-SIR-19(a).

its management, has made an investment into the utility company by covering the deficit between the operating revenues and expenses.

I contend that ratepayers are being short-changed. That is, if the utility company's argument is accepted, the utility company will be allowed to collect revenues for estimated income taxes through rates, but will not be required to pay them because of the available NOLs will allow the Company to offset the taxable income until the NOLs are exhausted or expired. Even if the utility company has to pay income taxes because the NOL credits were used by an affiliated company, this is not fair to ratepayers either since rates for utility companies are supposed to be set on a stand-alone basis. If the NOLs are used by an affiliate instead of being retained for the utility company and its customers, this is not reasonable since the NOLs should be retained for purposes of the utility company. This condition is further exacerbated by the possibility that customers may not be able to receive the long-term benefits associated with ADIT and the Hawaii State Capital Goods Excise Tax Credits ("HSCGETC") because of management's decision to not seek an appropriate rate structure to allow such benefits to be realized. These tax related items usually result in the reduction of rate base, but when a utility company does not have taxable income, a utility company on a stand alone basis will most likely not be able to realize accelerated depreciation tax benefits, which generate the ADIT, and may not be able to claim the excise tax credits. Thus, if or when rates are set to allow a utility company to earn profits which will trigger the need to pay income taxes, the Company's proposal will result in ratepayers having to pay for income tax expenses included in base rates, but not enjoy the benefits of credits that should have been claimed in the past to reduce the estimated rate base.

Q. WHAT IS YOUR RECOMMENDATION?

A. As one consideration, the Commission could consider requiring the Company to address this matter before proceeding with the determination of revenue requirements. While the potential impact of the income tax expense will be small or negligible, especially if the Commission adopts the recommendation that a break-even approach (i.e., no income) be used for this proceeding, the impact of the ADIT and the HSCGETC cannot be reliably quantified due to the lack of reliable evidence. These rate base items might also be nominal, but the principle of the matter should be addressed. Thus, this proceeding would either need to be suspended until the matter is resolved or the instant application could be dismissed and a new application can be filed once the appropriate values have been determined and can be supported.

In the alternative, I contend that if the Commission is willing to move forward with the current application, the Commission should require the Company to provide the best estimates of the ADIT and HSCGETC that should be calculated as if the Company had properly recorded and taken these tax benefits.

V. **RATE BASE**.

Q. YOU MENTION THAT YOU ARE RECOMMENDING THAT THE COMMISSION SHOULD USE A BREAK EVEN APPROACH IN THE INSTANT PROCEEDING. IF THE COMMISSION DOES NOT ALLOW ANY ROR, IS A DETAILED REVIEW OF RATE BASE REQUIRED?

A. While a break even approach means that a utility company will not earn a return on its investment, it is still necessary to evaluate the proper level of rate base since it is likely that the Commission approved level of rate base will be used as the basis upon which rate base for the Company's next rate proceeding will be based.

Q. YOU HAVE ALREADY MENTIONED THAT THE COMMISSION SHOULD CONSIDER REQUIRING MPUI TO FILE EITHER A CORRECTED APPLICATION OR A NEW APPLICATION WITH CORRECTED NUMBERS TO ADDRESS THE ADIT AND HSCGETC BALANCES. IF, HOWEVER, THE COMMISSION ALLOWS THE CURRENT APPLICATION TO MOVE FORWARD, WHAT IS YOUR RECOMMENDATION FOR RATE BASE?

A. There are three general issues in this proceeding that should be considered when determining rate base:

- What amounts, if any, should be disallowed due to facts or circumstances that suggest that the cost of a plant item might have already been recovered through some other means;

- What amount of plant might represent excess capacity that is greater than necessary to meet the demand of the existing customer base; and
- What is the appropriate amount of ADIT and HSCGETC that should be imputed to recognize the tax benefits that should have been taken?

Another matter that I believe needs to be addressed is the reasonableness of the Company's depreciation rates. I contend that the Company may be using depreciation rates that are excessive.

Q. ON WHAT BASIS DO YOU CONTEND THAT THE COMPANY MAY BE USING EXCESSIVE DEPRECIATION RATES?

A. Based on MPU 9.2, the Company will have over $6.5 million of plant-in-service as of June 30, 2010. The net plant-in-service balance is about $1 million. This means that the Company has approximately $5 million of fully depreciated plant. This causes some concern since if the Company is using depreciation rates that are too high, it is not in the best interests of the public (since it causes intergenerational inequities where past ratepayers are paying more than they should and future ratepayers will pay less than they should) or the Company (since, if the Company is using excessive depreciation rates, it will have lower or no depreciation expenses reflected in rates in the future, which might impair their ability to build equity to buy new plant, when it becomes necessary.)

I am not, however, recommending any adjustments at this time. The depreciation expense should not be adjusted without a more thorough analysis and likewise, the accumulated depreciation should not be adjusted. If the accumulated depreciation were adjusted, this would most likely unreasonably increase net rate base, which would be to the Company's advantage at the customers' expense. The Commission should, however, consider whether the Company should engage in a study, to be submitted before the Company's next rate proceeding, to evaluate the Company's depreciation practices. The Consumer Advocate is aware that all of the possible studies and management audits will possibly be recoverable from the Company's customers, but the fact that the Company's net plant-in-service is so low as compared to historical cost is very troubling.

Q. PLEASE DISCUSS THE OTHER ISSUES YOU MENTIONED.

A. As it relates to the rebuttable presumption that the value of certain plant items might have been recovered through some other means, there are certain criteria that should be present for the presumption to be made. Generally, the presumption is applied at the time of a CPCN application, because once Commission approved rates are implemented, the likelihood of a company charging less than appropriate rates should be minimized. In this instance, I contend that the presumption exists because the Company asserts that it has been suffering significant losses for some time and has various assets which are on its book accounting records, but do not appear on the tax accounting records. This is illustrated by the reconciliation that is provided in response to CA-IR-28. Attachment CA-IR-28 shows that there is a $1,152,906 between book and tax records. While an adjustment could be made to remove the entire $1,152,906, the Company asserts that, if an adjustment should be made, the appropriate amount is $140,000. The Company arrives at this conclusion based on the observation that the costs associated with the Puunana Treatment Plant were not expensed and not on the tax returns. The Company contends that if the plant were written off for tax purposes, it would have been expensed and would have been reflected on the tax returns. While the Company makes this assertion for the Puunana Treatment Plant, the Company apparently has not done the same research for the remaining $140,000.

I do not believe that this assertion is sufficient. The Company should be required to resolve the difference, if possible. Thus, I recommend that the amounts associated with the plant items that are depreciated for book purposes, but not tax purposes should be disallowed and the depreciation expense associated with these items should also be excluded from the test year.

Q. YOU HAVE ASSERTED THAT THE COMMISSION SHOULD CONSIDER THE REASONABLENESS OR NEED FOR AN EXCESS CAPACITY

ADJUSTMENT. ARE YOU RECOMMENDING THAT THE COMMISSION SHOULD MAKE THAT ADJUSTMENT, AND, IF SO, WHAT IS THAT ADJUSTMENT?

A. While I believe that an excess capacity adjustment is appropriate, I also believe that further analysis is required. I do not believe that I have sufficient information to offer an estimate that is well supported. Due to the many changes that have affected the Company, its affiliates, and its customers, additional information is necessary. Thus, I reserve the right to revisit this issue dependent upon whether additional information might be available to facilitate the development of an excess capacity factor. Any such excess capacity adjustment would be affected the amount of plant that might be disallowed for other reasons, such as the rebuttable presumption that the costs have already been recovered through some other means.

Q. YOU CONTEND THAT IT IS NECESSARY TO IMPUTE ADIT AND HSCGETC WHEN DETERMINING THE TEST YEAR RATE BASE. HOW WOULD YOU CALCULATE THESE AMOUNTS?

A. I do not believe that it reasonably possible with any degree of certainty at this time. The issues associated with the appropriate plant items must be first resolved before the appropriate adjustments can be made with the ADIT and HSCGETC. And, it appears that insufficient information exists to complete an independent analysis. For instance, while the Company asserts that the

Puunana treatment plant should not be excluded, if one compares the attachment to CA-IR-28(a), which suggests that the in-service date for this upgrade is as of September 30, 2005 (see line 22), there is no plant item on MPU 9.6, which is the Company's support for the ADIT. In fact, the only items with an in-service date in 2005 total approximately only $200,000, which means that there is about $800,000 of unexplained difference, since the Puunana Treatment Plant Upgrade is reported at $1,012,378.

But, for purposes of a placeholder, I have tried to estimate ADIT using the available information. I have removed the book depreciation associated with the items that are identified on Attachment CA-IR-28(a) as being reflected "On book not on tax" from the calculation of ADIT. The result is that there are ADIT balances of $71,964 and $87,200 for the years ended June 30, 2009 and June 30, 2010, respectively, which reduce the rate base.[28] And for HSCGETC, I have added an appropriate amount of credit for the proposed plant additions in 2009 and 2010.

Q. *DID YOU MAKE ANY OTHER ADJUSTMENTS TO RATE BASE?*

A. The Company had originally contended that they would be purchasing new vehicles in 2009. However, in response to CA-IR-43, the Company acknowledged that it has changed its plans and will not be buying the vehicles

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[28] Due to the effective income tax rate changing depending on the results of operation, this value may need to be further adjusted notwithstanding the remaining issue about the reliability of the underlying information.

as originally proposed. Thus, I am removing the amount related to vehicles and the associated impact on depreciation and HSCGETC.

Due to the various adjustments being made, it appears that the result is a negative rate base. It is likely that additional investigation might result in a different outcome, but for purposes of calculating revenue requirements, I am recommending the removal of all rate base items.

VI. **RATE OF RETURN.**

Q. AS GENERALLY DISCUSSED ON PAGE 38 OF MPU-T-100, PAGES 38 THROUGH 39, MPUI IS SEEKING COMMISSION APPROVAL OF A 2.0 PERCENT ROR EVEN THOUGH MPUI BELIEVES THAT IT IS ENTITLED TO AN 8.5 PERCENT ROR. DO YOU BELIEVE THAT THIS IS REASONABLE?

A. No. First, as discussed in the section related to income taxes, the Company is proposing to remove all income tax elements, including ADIT, which is generally an item that represents a deduction to rate base. Since the ROR is applied to rate base, if the rate base is higher than appropriate, the calculated income will be higher than appropriate, regardless of what ROR value might be applied. Until the matter surrounding the appropriate values for ADIT can be resolved, allowing any level of ROR in the instant proceeding would not be reasonable.

Another factor that should be considered is the requested increase. The Company is seeking to increase rates by over 200% for most rate classes. While 2.00% is somewhat nominal, as calculated by MPUI on MPU 6, this proposed ROR, if no other ratemaking elements are adjusted, results in almost $20,000 of income, which using MPUI's gross revenue conversion factor translates into about $34,000 of additional revenues. In these current economic conditions and considering the magnitude of the proposed increase as well as some of the other issues relating to the *Company's estimates, the Commission should only consider a breakeven* level.

In addition, the Consumer Advocate has concerns with the proposal that is articulated in Mr. O'Brien's testimony, where he proposes that any changes in the Company's estimated revenues, expenses, or rate base that would affect the calculated ROR, should basically be offset by an increase in the allowed ROR. This would essentially make moot all efforts to conduct meaningful analysis on other ratemaking elements. While there is appreciation that the Company did not seek an ROR of 8.50%, there is no support for the 2.00% or the 8.50% and suggesting that any adjustments in other areas be offset by increasing the ROR up to 8.50% is troubling.

VII. RATE DESIGN.

Q. WITH YOUR PROPOSED REVENUE REQUIREMENTS, DO YOU HAVE ANY COMMENTS ON RATE DESIGN?

A. Yes. The Company has proposed that all customer classes should receive an equal allocation of the proposed increase in rates. For purposes of this rate proceeding, I believe that an "across-the-board" allocation of any rate change is the only logical course of action at this time. To explain, I contend that in order to effectuate an alternate rate design would not be practical in the instant proceeding. In past cases, the Consumer Advocate has analyzed the various types of expenses and investments for purposes of rate design, but given the many questions that exist regarding the various revenue requirement elements of the Company, attempting to functionalize the expenses and rate base elements would not be productive.

This is not to say, however, that it would not be reasonable to conduct a cost of service study ("COSS") at some point. The purpose of the COSS would be to determine whether, given all of the changes that have occurred with the Company's service territory, the current rate design remains a reasonable means by which for the Company to recover its costs of service.

Q. THE COMPANY PROPOSES TO IMPLEMENT THE PROPOSED RATE INCREASE IN TWO SEPARATE PHASES. DO YOU AGREE WITH THIS PROPOSAL?

A. Yes. In general, whenever a utility company proposes an increase that might exceed 25%, the Consumer Advocate will recommend that the Commission consider implementing that increase through phased increases. That is, the overall increase should occur over two or more separate increases to minimize rate shock. Generally, rate shock refers to the possibility that a utility company's customers might not be able to accommodate a significant increase in utility rates without difficulty. Thus, depending on the outcome of revenue requirements, if the overall increase exceeds 25%, the Commission should normally consider the need for a phase-in plan. In this particular instance, however, since the overall increase should be determined by comparing the approved revenue requirements to the last Commission approved rates (i.e., approved in Docket No. 02-0371), and not the temporary rates approved in Docket No. 2008-0115, it is likely that the overall increase will easily exceed 25%. I contend that it would be easier for customers to absorb the likely increase over a 12 month phase-in plan, where the first increase occurs effective with the Commission's interim or final order and the second phase occurs 12 months after the first increase. I am mindful, however, that there are concerns with the Company's operations and cash flows, and would consider alternate phase-in plans.

The result of this proposal is reflected on CA-121 and CA-122. CA-121 shows the development of the proposed rates that allocated the increase on an across-the-board basis and CA-122 reflects the phase-in. There is a difference between the amount of the calculated revenue requirements and the resulting revenues derived from the phase-in rate plan. This is caused by rounding differences. Rather than trying to eliminate the rounding difference, I am receptive to discussion with the Company and the other parties if efforts are made to reach settlement.

Q. PLEASE COMMENT ON THE COMPANY'S REQUEST TO IMPLEMENT AUTOMATIC ADJUSTMENT CLAUSES FOR FUEL AND ELECTRICITY.

A. I do not recommend that the Commission approve the Company's request for automatic adjustment clauses. As has been discussed recently, the Consumer Advocate is concerned with the small utility companies that have implemented automatic clauses. Automatic adjustment clauses should be reserved for certain revenue requirement elements that generally represent significant expenses that are not within the control of the utility company. Arguably, the combined fuel and electricity expense might represent a significant expense for the Company. The Consumer Advocate is concerned, however, that these clauses are not necessarily implemented appropriately by the small utility companies with the appropriate filings with the Commission to justify the levels that are being charged and to ensure that they are being *implemented correctly. In addition, these clauses might allow the small utility* companies to avoid making rate filings on a more regular basis, which can lead to situations where a utility company may wait seven years or more and then seek a rate increase that might be 50% or more. I believe that this serves neither the companies' nor the customers' needs or best interests. In addition, given all of the stated uncertainty regarding various test year estimates and the changes that have been ongoing in the Company's service territory, I contend that the Company should plan on making another rate application filing within three to four years. This should give an opportunity to collect data, perform the necessary studies, investigate and implement the appropriate infrastructure improvements, and submit an application that will hopefully be less controversial.

Q. DO YOU OPPOSE THE PROPOSED INCREASE IN THE RECONNECTION FEE?

A. No.

VIII. CONCLUSION.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes. It does.

DEAN NISHINA

Educational Background and Experience

Business Address:	335 Merchant Street Honolulu, Hawaii 96813
Position:	Executive Director
Years of Service:	Since October 1992
Business Affiliations:	Division of Consumer Advocacy, Department of Commerce and Consumer Affairs, State of Hawaii 1989 - 1992 -- Arthur Andersen & Co., Utilities, Telecommunications, Transportation, and Government Division, Chicago, Illinois
University or College:	Northwestern University, Evanston, Illinois DePaul University, Chicago, Illinois
Degree:	Bachelor of Arts in Economics and Psychology and Certificate of Asian Studies Master of Science in Accountancy
Certification:	1993 -- Certified Public Accountant
Regulatory Experience:	People's Gas, Light & Coke Co. Chicago, Illinois 1992 rate case.
Other Curriculum:	Certificate - Center for Public Utilities NARUC - Regulation and Rate Making Process, New Mexico State University, 1993 and 1999.
Previously Testified:	I have testified and/or participated in all utilities and transportation areas regulated by the Commission.

Molokai Public Utilities, Inc.
Revenue Requirements & Rate of Return Summary
Test Year Ending June 30, 2010

Line #		[1] Present Rates	[2] Additional Amount	[3] Proposed Rates at 0.00%
1	Monthly Customer Charge	$52,688	$58,674	$111,362
2	Water Usage Charge	356,165	389,910	746,075
3	Other	0		0
4	Connection Fees	0		0
5	Late Fees	1,300		1,300
6				
7	Total Operating Revenues	410,153	448,584	858,737
8	Labor, Payroll Taxes & Employee Benefits	165,308		165,308
9	Fuel & Power Expense	303,680		303,680
10	Department of Agri - Rental/Service	144,456		144,456
11	Cost of Sales	0		0
12	Materials & Supplies	14,010		14,010
13	NOT USED	0		0
14	Affiliated Charges	9,600		9,600
15	Professional & Outside Services	14,137		14,137
16	Repairs & Maintenance	65,812		65,812
17	NOT USED	0		0
18	Insurance	13,000		13,000
19	Regulatory Expense	55,000		55,000
20	General & Administrative	13,318		13,318
21	Other	0		0
22	Other	0		0
23	Total O&M Expenses	798,321	0	798,321
24	Taxes, Other Than Income	26,188	28,642	54,830
25	Depreciation	5,587		5,587
26	Amortization	0		0
27	Income Taxes	0	(0)	(0)
28	Diff. due to changing factors			0
29	Total Operating Expenses	830,096	28,642	858,738
30	Operating Income	($419,943)	$419,942	($1)
31	Average Rate Base	$0		$0
32	Return on Rate Base	0.00%		0.00%
33	Target ROR	0.00%		
34	Increase in ROR	0.00%		
35	Increase in NOI	803,908		
36	Gross Revenue Conversion Factor	1.06820		
37	Increase in Revenues	$448,581	($3)	
38	Percent Increase in Revenue		109.37%	

Molokai Public Utilities, Inc.
Income Tax Expense
Test Year Ending June 30, 2010

		[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]
			Taxable Amounts			Income Taxes			Difference
Line #	Description	Tax Rates	Present Rates	Revenue Increase	Proposed Rates	Present Rates	Revenue Increase	Proposed Rates	in Income Tax Calculations [4]+[5]-[6]
1	Total Revenues					410,153	448,584	858,737	
2	Total Operations & Maintenance Expenses					798,321	0	798,321	
3	Depreciation					5,587	0	5,587	
4	Amortization					0	0	0	
5	Taxes Other than Income Taxes					26,188	28,642	54,830	
6	Total Operating Expenses					830,096	28,642	858,738	
7	Operating Income before Income Taxes					(419,943)	419,942	(1)	
8	Interest Expenses					-	-	-	
9	State taxable Income					(419,943)	419,942	(1)	
	Less:								
10	State income Tax								
11	less than $25K	4.4%	(25,000)	25,000	(1)	0	1,100	(0)	
12	Over $25K, but less than $100K	5.4%	(75,000)	75,000		0	4,050	0	
13	Over $100K	6.4%	(319,943)	319,942		0	20,476	0	
14	State Income Tax					0	25,626	(0)	25,626
15	Federal taxable income					(419,943)	394,316	(1)	
16	Federal income tax								
17	less than $50K	15.0%	(50,000)	50,000	(1)	0	7,500	(0)	
18	Over $50K, but less than $75K	25.0%	(25,000)	25,000		0	6,250	0	
19	Over $75K, but less than $100K	34.0%	(25,000)	25,000		0	8,500	0	
20	Over $100K, but less than $335K	39.0%	(235,000)	235,000		0	91,650	0	
21	Over $335K	34.0%	(84,943)	59,316		0	20,167		
22	Federal Income Tax					0	134,067	(0)	134,067
23	**Total Federal and State income taxes**					$0	$159,694	($0)	$159,694
24									
25	Effective Tax Rate					0.0000%	38.0275%	18.7400%	
26	State					0.000%	6.102%	4.4000%	
27	Federal					0.000%	31.925%	14.3400%	

Molokai Public Utilities, Inc.
Taxes Other Than Income Taxes
Test Year Ending June 30, 2010

Line #	Description	[1] Revenues at Present Rates	[2] Revenues at Proposed Rates	[3] Tax Rates	[4] Taxes at Present Rates	[5] Taxes at Proposed Rates
	Revenue Taxes					
1	Public Company Service Tax (Pursuant to HRS § 239)	$410,153	$858,737	5.885%	$24,138	$50,537
2	Public Utility Fee (Purusant to HRS § 269-30)	410,153	858,737	0.500%	2,051	4,294
3	Franchise Tax (applicable to electric companies only) (Pursuant to HRS § 240)			2.500%		
4	Total Revenue Taxes				26,188	54,830
	Other Taxes					
5	Name					0
6	Total Other Taxes				0	0
7	Total Taxes Other Than Income Taxes				$26,188	$54,830

Molokai Public Utilities, Inc.
Average Rate Base
Test Year Ending June 30, 2010

Line #	Description	[1] At June 30, 2009	[2] At June 30, 2010	[3] Average
	Plant In Service	$6,535,783	$6,550,283	$6,543,033
1	Accumulated Depreciation Reserve	6,476,798	6,482,384	6,479,591
2	Net Plant-in-Service	58,985	67,899	63,442
	Deduct:			
3	Net Contributions in Aid of Construction	0	0	0
4	Customer Advances	0	0	0
5	Customer Deposits	(10,691)	(10,691)	(10,691)
6	Accumulated Deferred Taxes: Federal	0	0	0
7	Accumulated Deferred Taxes: State	0	0	0
8	Unamortized Hawaii General Excise Tax Credit	(207,931)	(191,130)	(199,531)
9	subtotal	(218,622)	(201,821)	(210,222)
	Add:			
10	Working Capital	65,417	65,417	65,417
11	Retirements	0	0	0
12	TY Adjustment	94,219	68,506	
13	subtotal	159,636	133,923	65,417
14	Total at End of Year	($0)	$0	
15	Average Rate Base For Test Year			$0

CA-102
Docket No. 2009-0048

Molokai Public Utilities, Inc.
Plant In Service
Test Year Ending June 30, 2010

Line #	Description	[1] Ref:	[2] Balance as of 6/30/08	[3] 6/30/09 Additions	[4] 6/30/09 Retirements	[5] Adjust	[6] Balance as of 6/30/09	[7] 6/30/10 Additions	[8] 6/30/10 Retirements	[9] Adjust	[10] Test Year Balance as of 6/30/10
1	Fully Depreciated Plant		$4,931,896				$4,931,896				$4,931,896
2	*Caterpillar Engine Model 3412E*	000112	78,499				$78,499				$78,499
3	Controls for Mahana Pumps	000123	13,925				13,925				13,925
4	Engine Alum-Teck Pacific Machinery	000110	23,877				23,877				23,877
5	HDPE Pipe for Papohaku Ranchlands	000108	21,042				21,042				21,042
6	Caterpillar Engine - retention	000113	8,722				8,722				8,722
7	Solar Electric System MKK Solar	000111	5,244				5,244				5,244
8	14 Water Meters M35 B81 3/4"	000114	2,621				2,621				2,621
9	Road Plates 3-each 5'x8' A-36 Steel	000107	2,508				2,508				2,508
10	Dechlorination Bazooka, Liquid Feed	000121	1,434				1,434				1,434
11	Sub-Total		5,089,768	0	0	0	5,089,768	0	0	0	5,089,768
12	Puunana Treatment Plant Upgrade	000124	1,012,378				1,012,378				1,012,378
13	CAP MP105 Papohaku Line Bypass	000120	61,448				61,448				61,448
14	Well 17 Repairs	000128	52,658				52,658				52,658
15	*Turbine Pump-Beylik Drilling*	000125	46,875				46,875				46,875
16	CAP MP102 Meter Replacement	000118	67,073				67,073				67,073
17	CAP KAJ140 Excess Water Pressure	000116	46,760				46,760				46,760
18											
19	Bypass Line for Moana Makani	000115	65,000				65,000				65,000
20	Mahana Pump replacement install	000126	14,100				14,100				14,100
21	CAP MP103 Well 17 Permit	000119	24,119				24,119				24,119
22	Control Piping Install	000127	2,253				2,253				2,253
23	MP104-Repower Well 17	000122	3,351				3,351				3,351
							0				0
24	Sub-Total		1,396,015	0	0	0	1,396,015	0	0	0	1,396,015
25	Backwash Water Recycle System			20,000			20,000				20,000
26	Valve Replace for Kaluakoi						0	4,000			4,000
27	Well 17 House Cooling Equip						0	5,000			5,000
28	Lateral Replacement Tool						0	3,000			3,000
29	Meter Reading Equip & Meters			30,000			30,000				30,000
30	Air Compressor & Tools						0	2,500			2,500
31	Vehicles			0			0				0
32	Total Additions			50,000	0	0	50,000	14,500	0	0	64,500
33	Total		$6,485,783	$50,000	$0	$0	$6,535,783	$14,500	$0	$0	$6,550,283

CA-103
Docket No. 2009-0048

Molokai Public Utilities, Inc.
Accumulated Depreciation
Test Year Ending June 30, 2010

Line #	Description	[1] Ref:	[2] Balance as of 6/30/08	[3] 6/30/09 Dep. Exp.	[4] 6/30/09 Retirements	[5] Adjust	[6] Balance as of 6/30/09	[7] 6/30/10 Dep. Exp.	[8] 6/30/10 Retirements	[9] Adjust	[10] Test Year Balance as of 6/30/10
1	Fully Depreciated Plant		$4,931,896				$4,931,896	$0			$4,931,896
2	Caterpillar Engine Model 3412E	000112	62,800	15,699			78,499	0			78,499
3	Controls for Mahana Pumps	000123	2,011	928			2,939	928			3,868
4	Engine Alum-Teck Pacific Machinery	000110	13,928	3,411			23,877	0			23,877
5	HDPE Pipe for Papohaku Ranchlands	000108	13,527	3,006			21,042	0			21,042
6	Caterpillar Engine - retention	000113	6,977	1,744			8,722	0			8,722
7	Solar Electric System MKK Solar	000111	3,059	749			5,244	0			5,244
8	14 Water Meters M35 B81 3/4"	000114	553	175			2,621	0			2,621
9	Road Plates 3-each 5'x8' A-36 Steel	000107	1,612	358			2,508	0			2,508
10	Dechlorination Bazooka, Liquid Feed	000121	1,394	40			1,434	0			1,434
11	Sub-Total		5,037,758	26,110	0	0	5,078,782	928	0	0	5,079,710
12	Puunana Treatment Plant Upgrade	000124	139,202	50,619			1,012,378	0			1,012,378
13	CAP MP105 Papohaku Line Bypass	000120	6,145	2,048			61,448	0			61,448
14	Well 17 Repairs	000128	2,633	5,266			52,659	0			52,659
15	Turbine Pump-Beylik Drilling	000125	4,428	3,125			46,875	0			46,875
16	CAP MP102 Meter Replacement	000118	26,830	6,707			67,073	0			67,073
17	CAP KAJ140 Excess Water Pressure	000116	9,352	2,338			46,760	0			46,760
18											
19	Bypass Line for Moana Makani	000115	52,000	13,000			65,000	0			65,000
20	Mahana Pump replacement install	000126	940	940			14,100	0			14,100
21	CAP MP103 Well 17 Permit	000119	19,296	4,823			24,119	0			24,119
22	Control Piping Install	000127	150	150			2,253	0			2,253
23	MP104-Repower Well 17	000122	2,681	670			3,351	0			3,351
24	Sub-Total		263,656	89,687	0	0	1,396,016	0	0	0	1,396,016
25	Backwash Water Recycle System		0	1,000			1,000	2,000			3,000
26	Valve Replace for Kaluakoi		0	0			0	133			133
27	Well 17 House Cooling Equip		0	0			0	250			250
28	Lateral Replacement Tool		0	0			0	150			150
29	Meter Reading Equip & Meters		0	1,000			1,000	2,000			3,000
30	Air Compressor & Tools		0	0			0	125			125
31	Vehicles		0	0			0	0			0
32	Total Additions		0	2,000	0	0	2,000	4,658	0	0	6,658
33	Total		$5,301,414	$117,797	$0	$0	$6,476,798	$5,587	$0	$0	$6,482,384

CA-104
Docket No. 2009-0048

Molokai Public Utilities, Inc.
Depreciation Expense (Book)
Test Year Ending June 30, 2010

Line #	Description	[1] Ref:	[2] In-service date	[3] Total Cost	[4] Estimated Useful Life	[5] Acc. Dep. Balance At 6/30/08	[6] Year Ended 6/30/09 Dep. Exp.	[7] Acc. Dep. Balance At 6/30/09	[8] Year Ended 6/30/10 Dep. Exp.	[9] Test Year Acc. Dep. Balance as of 6/30/10
1	Fully Depreciated Plant	0		$4,931,896		$4,931,896	$0 x	$4,931,896	$0	$4,931,896
1	Caterpillar Engine Model 3412E	000112	6/30/04	78,499	5	62,800	15,699 x	78,499		78,499
2	Controls for Mahana Pumps	000123	4/30/06	13,925	15	2,011	928	2,939	928	3,868
3	Engine Alum-Teck Pacific Machinery	000110	5/31/04	23,877	7	13,928	3,411	23,877	0	23,877
4	HDPE Pipe for Papohaku Ranchlands	000108	12/31/03	21,042	7	13,527	3,006	21,042	0	21,042
5	Caterpillar Engine - retention	000113	6/30/04	8,722	5	6,977	1,744 x	8,722		8,722
6	Solar Electric System MKK Solar	000111	5/31/04	5,244	7	3,059	749	5,244	0	5,244
7	14 Water Meters M35 B81 3/4"	000114	4/30/05	2,621	15	553	175	2,621	0	2,621
8	Road Plates 3-each 5'x8' A-36 Steel	000107	12/31/03	2,508	7	1,612	358	2,508	0	2,508
9	Dechlorination Bazooka, Liquid Feed	000121	7/31/05	1,434	3	1,394	40 x	1,434		1,434
10	Sub-Total			157,872		105,862	26,110	146,886	928	147,814
11	Puunana Treatment Plant Upgrade	000124	9/30/05	1,012,378	20	139,202	50,619	1,012,378	0	1,012,378
12	CAP MP105 Papohaku Line Bypass	000120	7/1/04	61,448	30	6,145	2,048	61,448	0	61,448
13	Well 17 Repairs	000128	11/30/07	52,658	10	2,633	5,266	52,659	0	52,659
14	Turbine Pump-Beylik Drilling	000125	2/8/07	46,875	15	4,428	3,125	46,875	0	46,875
15	CAP MP102 Meter Replacement	000118	7/1/04	67,073	10	26,830	6,707	67,073	0	67,073
16	CAP KAJ140 Excess Water Pressure	000116	7/1/04	46,760	20	9,352	2,338	46,760	0	46,760
17										
18	Bypass Line for Moana Makani	000115	7/1/04	65,000	5	52,000	13,000 x	65,000		65,000
19	Mahana Pump replacement install	000126	6/29/07	14,100	15	940	940	14,100	0	14,100
20	CAP MP103 Well 17 Permit	000119	7/1/04	24,119	5	19,296	4,823 x	24,119		24,119
21	Control Piping Install	000127	6/29/07	2,253	15	150	150	2,253	0	2,253
22	MP104-Repower Well 17	000122	7/1/04	3,351	5	2,681	670 x	3,351		3,351
23	Sub-Total			1,396,015		263,656	89,687	1,396,016	0	1,396,016
24	Backwash Water Recycle System		6/30/09	20,000	10	0	1,000	1,000	2,000	3,000
25	Valve Replace for Kaluakoi		1/1/10	4,000	15	0	0	0	133	133
26	Well 17 House Cooling Equip		1/1/10	5,000	10	0	0	0	250	250
27	Lateral Replacement Tool		1/1/10	3,000	10	0	0	0	150	150
28	Meter Reading Equip & Meters		6/30/09	30,000	15	0	1,000	1,000	2,000	3,000
29	Air Compressor & Tools		1/1/10	2,500	10	0	0	0	125	125
30	Vehicles		6/30/09	0	5	0	0	0	0	0
31	Total Additions			64,500		0	2,000	2,000	4,658	6,658
32	Total			$1,618,387		$369,518	$117,797	$1,544,902	$5,587	$1,550,488

CA-105
Docket No. 2009-0048

Molokai Public Utilities, Inc.
Accumulated Deferred Income Taxes
Test Year Ending June 30, 2010

Line #	Description	[1] Tax Life	[2] In-service date	[3] Total Cost	[4] Tax Depreciation Method	[5] Accumulated Tax Depre As of 6/30/08	[6] 6/30/09 Tax Dep. Exp.	[7] 6/30/09 Adjustments	[8] Accumulated Tax Depre As of 6/30/09	[9] 6/30/10 Tax Dep. Exp.	[10] 6/30/10 Adjustments	[11] Accumulated Tax Depre As of 6/30/10
1	Water Property Prior to 2000			$4,931,896		$4,931,896			$4,931,896			$4,931,896
2												
3												
4	Equipment	5	12/31/02	3,156	200 DB	3,156	0		3,156	0		3,156
5	Equipment	5	12/31/03	65,887	200 DB	62,091	3,796		65,887	0		65,887
6	Equipment	5	6/30/05	5,671	200 DB	4,791	776		5,567	104		5,671
7	Water System	15	5/30/05	194,908	150 DB	57,050	15,593		72,643	15,593		88,236
8	Equipment	5	7/31/08	1,434	200 DB	1,099	224		1,323	224		1,547
9												
10												
11	Equipment	5	4/30/06	13,925	200 DB	9,163	3,175		12,338	3,175		15,513
12	Water System	15	2/2/06	46,875	150 DB	8,461	4,008		12,469	4,008		16,477
13	Water System	15	6/30/06	14,100	150 DB	2,546	1,206		3,752	1,206		4,958
14	Water System	15	6/30/06	2,253	150 DB	407	193		600	193		793
15	Water System	15	6/30/06	28,323	150 DB	1,416	1,416		2,832	1,416		4,248
16	Water System	15	9/30/07	24,335	150 DB	1,217	1,217		2,434	1,217		3,651
17	Water System	15	2/29/08	114	150 DB	6	6		12	6		18
18												
19	Brackish Water Recycle System	15	6/30/09	20,000	150 DB		1,000		1,000	1,900		2,900
20	Valve Replacement	5	1/1/10	4,000	200 DB				0	600		600
21	Cooling Equipment	5	1/1/10	5,000	200 DB				0	750		750
22	Lateral Replacement Tool	5	1/1/10	3,000	200 DB				0	450		450
23	Meter Reading Equip & Meters	5	6/30/09	30,000	200 DB		6,000		6,000	9,600		15,600
24	Air Compressor	5	1/1/10	2,500	200 DB				0	375		375
25	Vehicles	5	6/30/09	40,000	200 DB		8,000		8,000	12,800		20,800
26												
27	Total			$5,437,377		$5,083,299	$46,610	$0	$5,129,909	$53,617	$0	$5,183,526
28	Accumulated Book Depreciation								5,994,422			5,921,116
29	Tax Depreciation (Over) Under Book	L 28 - L 27							864,513			737,590
30	Composite Income Tax Rate								0.0000%			0.0000%
31	Accumulated Deferred Income Tax -- NOT USED BECAUSE BOOK DEPRECIATION EXCEEDS TAX DEPRECIATION								$0	AMOUNTS NOT USED		$0

CA-106
Docket No. 2009-0048

Molokai Public Utilities, Inc.
Hawaii Capital Goods Excise Tax Credit
Test Year Ending June 30, 2010

		[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]	[11]
Line #	Description	Ref:	In-service date	Total Credit Amount	Amortization Rate	Acc. Amort. Balance as of 6/30/08	6/30/09 Amortization	6/30/09 Adjustments	Acc. Amort. Balance as of 6/30/09	6/30/10 Amortization	6/30/10 Adjustments	Test Year Acc. Amort. Balance as of 6/30/10
1	Assets added in 2004		6/30/04	$131,774	5.00%	$32,944	$6,589		$39,532	$6,589		$46,121
2									0			0
3	Assets added in 2005		6/30/05	11,343	6.67%	3,026	757		3,783	757		4,539
4									0			0
5	Assets added in 2006		6/30/06	15,358	6.67%	3,073	1,024		4,098	1,024		5,122
6									0			0
7	Assets added in 2007		6/30/07	63,228	6.67%	8,435	4,217		12,652	4,217		16,869
8									0			0
9	Assets added in 2008		6/30/08	52,772	6.67%	3,520	3,520		7,040	3,520		10,560
10									0			0
11									0			0
12									0			0
13									0			0
14									0			0
15	Assets added in 2009		6/30/09	2,000	6.67%			2,000	2,000	133		2,133
16									0			0
17	Assets added in 2010		6/30/10	560	6.67%				0		560	560
18									0			0
19									0			0
20									0			0
21	Total			$ 277,035		$ 50,997	$ 16,107	$ 2,000	$ 69,104	$ 16,240	$ 560	$ 85,905
22	Unamortized Balance at End of Year								$ 207,931			$ 191,130

Molokai Public Utilities, Inc.
Working Cash
Test Year Ending June 30, 2010

Line #	Description	[1] Amount
1	Labor, Payroll Taxes & Employee Benefits	165,308
2	Fuel & Power Expense	303,680
3	Department of Agri - Rental/Service	144,456
4	Cost of Sales	0
5	Materials & Supplies	14,010
6		0
7	Affiliated Charges	9,600
8	Professional & Outside Services	14,137
9	Repairs & Maintenance	65,812
10		0
11	Insurance	13,000
12	Regulatory Expense	55,000
13	General & Administrative	0
14	Other	0
15		
16		
17	subtotal	785,003
18	Working Cash factor	12
19	Working Cash	65,417

Molokai Public Utilities, Inc.
Historical Summary
Test Year Ending June 30, 2010

		[1]	[2]	[3]	[4]	[5]	[6]
Line #	Description	6/30/04	6/30/05	6/30/06	6/30/07	6/30/08	Test Year 6/30/10
	Revenues						
1	Monthly Customer Charges	$0	$0	$0	$0	$0	$52,688
2	Customer Usage Charges	640,139	663,733	763,752	780,623	646,616	356,165
3	Other						
4	Sub-Total	640,139	663,733	763,752	780,623	646,616	408,853
5	Connection Fees						
6	Late Fees	529	888	960	1,201	1,003	1,200
7	TOTAL WATER REVENUES	$640,668	$664,621	$764,712	$781,824	$647,619	$410,053
	Expenses						
8	Labor, Payroll Taxes & Employee Benefit	$ 85,045	$ 107,400	$ 209,708	$ 172,714	$ 155,828	$ 165,308
9	Fuel & Power Expense	250,731	342,449	491,344	604,556	664,000	303,680
10	Department of Agri - Rental/Service	136,497	136,497	136,497	142,897	130,096	144,456
11	Cost of Sales	75,763	53,347	238,425	234,426	247,190	0
12	Materials & Supplies	5,891	7,595	86,955	73,367	80,167	14,010
13		0	0	0	0	0	0
14	Affiliated Charges	9,976	9,600	9,600	9,968	9,745	9,600
15	*Professional & Outside Services*	*20,216*	*10,541*	*4,011*	*4,427*	*19,314*	*14,137*
16	Repairs & Maintenance	27,836	34,140	23,488	135,542	86,743	65,812
17		0	0	0	0	0	0
18	Insurance	15,191	17,800	28,141	21,803	13,015	13,000
19	Regulatory Expense						55,000
20	General & Administrative	5,871	5,360	12,170	13,178	13,981	13,318
21	Other	878	0	0	0	0	0
22	Taxes Other than Income Taxes	24,588	31,408	32,213	34,291	30,940	26,188
23	Depreciation	3,360	82,854	123,109	137,268	117,648	5,587
24	Amortization						
25	Income Taxes						
26	TOTAL EXPENSES	$ 661,843	$ 838,991	$ 1,395,661	$ 1,584,437	$ 1,568,667	$ 830,096
27	NET INCOME/(LOSS)	$ (21,175)	$ (174,370)	$ (630,949)	$ (802,613)	$ (921,048)	$ (420,043)

Molokai Public Utilities, Inc.
Labor, Payroll Taxes & Employee Benefits
Test Year Ending June 30, 2010

		[1]	[2]	[3]	[4]	[5]	[6]	[7]
Line #	Description	Ref:	6/30/04	6/30/05	6/30/06	6/30/07	6/30/08	Test Year 6/30/10
	Expenses							
1	Salaries & Wages							
2	Direct S&W		$63,596	$87,895	$62,914	$68,805	$58,981	$121,166
3								
4	S&W Charged Thru Cost of Sales				54,806	64,901	64,198	
5								
6								
7	Total S&W		63,596	87,895	117,720	133,706	123,179	121,166
8	Increase (%)			38.21%	33.93%	13.58%	-7.87%	-1.63%
	Employee Benefits							
9	Medical & Dental		5,015	4,610	7,372	10,596	9,377	19,078
10	Workers Compensation		9,252	6,608	41,251	6,036	5,057	11,935
11	TDI		451	545	563	203	231	799
12	Group Life		221	117	134	42	0	349
13	LTDI		226	231	236	190	90	772
14								
15	Benefits Charged Thru Cost of Sales				31,869	9,743	9,271	
16								
17	Total Employee Benefits		15,165	12,111	81,425	26,810	24,026	32,933
18	Increase (%)			-20.14%	572.32%	-67.07%	-10.38%	37.07%
	Payroll Taxes							
18	FICA		4,859	5,986	4,801	5,298	3,080	10,286
19	FUTA		114	171	141	125	90	193
20	SUTA		1,311	1,237	914	915	257	730
21								
22	Payroll Tax Charged Thru Cost of Sales				4,707	5,860	5,196	
23	*Total payroll taxes*		6,284	7,394	10,563	12,198	8,623	11,209
24	Increase (%)			17.66%	42.86%	15.48%	-29.31%	29.99%
25	Total PR Taxes & Benefits		21,449	19,505	91,988	39,008	32,649	44,142
26	Increase (%)			-9.06%	371.61%	-57.59%	-16.30%	35.20%
27	Total All		$ 85,045	$ 107,400	$ 209,708	$ 172,714	$ 155,828	$ 165,308
28	Increase (%)			26.29%	95.26%	-17.64%	-9.78%	6.08%
	Ratio of Benefits to total all		17.832%	11.277%	38.828%	15.523%	15.418%	19.922%
	Ratio of PR Taxes to total S&W		9.881%	8.412%	8.973%	9.123%	7.000%	9.251%

Notes:
Direct S&W adjusted by: 1) removing 3.0% increase; 2) removing wages asscociated with new position added between 2009 and 2
total adjustment: $24,435
Medical & Dental adjusted by: 1) decreasing by 50%

Molokai Public Utilities, Inc.
Fuel & Power Expense
Test Year Ending June 30, 2010

		[1]	[2]	[3]	[4]	[5]	[6]		[7]
Line #	Description	Ref:	6/30/04	6/30/05	6/30/06	6/30/07	6/30/08		Test Year 6/30/10
	Expenses								
	Electricity								
1	Direct To MPU		$96,241	$114,937	$161,951	$192,596	$202,649		$133,439
2	MPL Charges to MPU - a/c # 610				40,636	60,499	66,047	[a]	[b]
3	subtotal - Electric		96,241	114,937	202,587	253,095	268,696		133,439
	Fuel								
4	Well # 17		154,490	227,512	288,757	351,461	395,304		170,241
5	subtotal - Fuel		154,490	227,512	288,757	351,461	395,304		170,241
6	Total Expense		$250,731	$342,449	$491,344	$604,556	$664,000		$303,680

APCAC Base Rate

7	Total Pro Forma Electric Expense (Line 13)	$133,439
8	Water Sales for Test Year (Exhibit MPU 11)	126,800
9	Electric Expense Per Thousand Gallons	$1.05236

[a] MPU Electric charged to MPU from MLP through Cost of Sales, account # 610, prior to December 2008

[b] Included as part of Line 1 for the Test Year

Molokai Public Utilities, Inc.
Department of Agri - Rental/Service
Test Year Ending June 30, 2010

		[1]	[2]	[3]	[4]	[5]	[6]	[7]
Line #	Description	Ref:	6/30/04	6/30/05	6/30/06	6/30/07	6/30/08	Test Year 6/30/10
	Expenses							
1								
2	Dept of Agriculture		$136,497	$136,497	$136,497	$142,897	$130,096	$144,456
3								
4								
5	Total		$136,497	$136,497	$136,497	$142,897	$130,096	$144,456

CA-112
Docket No. 2009-0048

Molokai Public Utilities, Inc.
Cost of Sales
Test Year Ending June 30, 2010

Line #	Description	Ref:	6/30/04	6/30/05	6/30/06	6/30/07	6/30/08		Test Year 6/30/10
		[1]	[2]	[3]	[4]	[5]	[6]		[7]
MPU Direct Expenses									
1	Chemicals & Testing		$49,265	$20,031	$8,592	$779	$112		
2	Chemical Shipping		2,739	3,189	841				
3	Charge from Wailoa for MM				(11,909)				
4	Chemicals								
5	Sub-Total		52,004	23,220	(2,476)	779	112		0
MPL Charges for MPU - a/c # 610									[B]
6	Salaries & Wages	[A]	23,759	30,127	54,806	64,901	64,198	[a]	Exh 10.1
7	Employee Benefits				31,868	9,743	9,271		Exh 10.1
8	Payroll Taxes				4,707	5,860	5,196		Exh 10.1
9	Electricity				40,636	60,499	66,047		Exh 10.2
10	Repair & Maintenance				9,938	8,992	13,040		Exh 10.9
11	Materials & Supplies				74,371	60,378	67,011		Exh 10.5
12	Vehicle Fuel				4,192	4,102	4,667		Exh 10.5
13	Insurance				10,873	8,424	5,028		Exh 10.11
14	Professional				2,675	1,923	3,875		Exh 10.8
15	Travel				2,123	2,608	5,754		Exh 10.13
16	Postage				1,655	3,172	1,180		Exh 10.13
17	Communications				1,923	1,828	1,306		Exh 10.13
18	Administrative				610	520	297		Exh 10.13
19	Other Charges				524	697	208		Exh 10.13
20	Sub-Total		23,759	30,127	240,901	233,647	247,078		0
21	TOTAL		$75,763	$53,347	$238,425	$234,426	$247,190		$0

[A] Charges incurred by MPL for MPU charged through account # 610. Charges stopped in December 2008

[B] Charges after December 2008 made directly to MPU and reflected on Exhibits Noted

Molokai Public Utilities, Inc.
Materials & Supplies
Test Year Ending June 30, 2010

		[1]	[2]	[3]	[4]	[5]	[6]	[7]
Line #	Description	Ref:	6/30/04	6/30/05	6/30/06	6/30/07	6/30/08	Test Year 6/30/10
MPU Direct Expenses								
1	Supplies for Operations		$6,174	$9,827	$6,580	$4,615	$3,599	$6,159
2	Uniforms		351	0	0	624	0	195
3	Fuel for Vehicles		5,391	7,275	8,033	7,890	8,331	7,384
4	Cleaning		149	320	359	373	158	272
5	Sub-Total							14,010
MPU Direct Charges Previously Charged from MPL thru a/c # 610								
6	Materials & Supplies				74,371	60,378	67,011	0
7	Fuel For Vehicles				4,192	4,102	4,667	0
8								
9	Sub-Total							0
10	Total		$5,891	$7,595	$86,955	$73,367	$80,167	$14,010

CA-114
Docket No. 2009-0048

Molokai Public Utilities, Inc.
Affiliated Charges
Test Year Ending June 30, 2010

		[1]	[2]	[3]	[4]	[5]	[6]	[7]
Line #	Description	Ref:	6/30/04	6/30/05	6/30/06	6/30/07	6/30/08	Test Year 6/30/10
1	Finance Dept Allocation		$9,976	$9,600	$9,600	$9,968	$9,745	$9,600
2								
3								
4								
5	Total		$9,976	$9,600	$9,600	$9,968	$9,745	$9,600

CA-115
Docket No. 2009-0048

Molokai Public Utilities, Inc.
Professional & Outside Services
Test Year Ending June 30, 2010

		[1]	[2]	[3]	[4]	[5]	[6]	[7]
Line #	Description	Ref:	6/30/04	6/30/05	6/30/06	6/30/07	6/30/08	Test Year 6/30/10
	MPU Direct Expenses							
1	Legal Expense		$12,722	$1,994	$1,336	$2,427	$5,452	$4,786
2	Other Professional		7,494	8,547		77	9,987	6,526
3								
4								
5	Sub-Total							11,312
	MPU Direct Charges Previously Charged from MPL thru a/c # 610							
6	Professional Services				2,675	1,923	3,875	2,824
7	Other							
8	Sub-Total							2,824
9	Total		$20,216	$10,541	$4,011	$4,427	$19,314	$14,137

CA-116
Docket No. 2009-0048

Molokai Public Utilities, Inc.
Repairs & Maintenance
Test Year Ending June 30, 2010

		[1]	[2]	[3]	[4]	[5]	[6]	[7]
Line #	Description	Ref:	6/30/04	6/30/05	6/30/06	6/30/07	6/30/08	Test Year 6/30/10
	MPU Direct Expenses							
1	Plant		$24,522	$30,782	$9,019	$122,975	$72,343	$51,928
2	Vehicles		3,314	3,358	4,531	3,575	1,360	3,228
3								
4	Sub-Total							55,156
	MPU Direct Charges Previously Charged from MPL thru a/c # 610							
5	Repair & Maintenance				9,938	8,992	13,040	10,657
6								
7	Sub-Total							10,657
8	Total		$27,836	$34,140	$23,488	$135,542	$86,743	$65,812

CA-117
Docket No. 2009-0048

Molokai Public Utilities, Inc.
Insurance
Test Year Ending June 30, 2010

		[1]	[2]	[3]	[4]	[5]	[6]	[7]
Line #	Description	Ref:	6/30/04	6/30/05	6/30/06	6/30/07	6/30/08	Test Year 6/30/10
MPU Direct Expenses								
1	Insurance		$15,191	$17,800	$17,268	$13,379	$7,987	$8,000
2								
3								
4	Sub-Total							8,000
MPU Direct Charges Previously Charged from MPL thru a/c # 610								
5	Insurance				10,873	8,424	5,028	5,000
6								
7	Sub-Total							5,000
8	Total		$15,191	$17,800	$28,141	$21,803	$13,015	$13,000

CA-118
Docket No. 2009-0048

Molokai Public Utilities, Inc.
Regulatory Expense
Test Year Ending June 30, 2010

Line #	Description	[1] Ref:	[2] Amount	[2] Total
	PREPARATION AND FILING			
1	Rate case consulting			
2	Regulatory		$40,000	
3	Engineering			
4	Other			
5	Legal		20,000	
6	Travel		1,000	
7	Other non-labor		1,000	
8	Sub-Total			$62,000
	DISCOVERY AND SETTLEMENT			
9	Rate case consulting			
10	Regulatory		25,000	
11	Engineering			
12	Other			
13	Legal		35,000	
14	Travel		2,000	
15	Other non-labor		1,000	
16	Sub-Total			63,000
	HEARINGS AND BRIEFING			
17	Rate case consulting			
18	Regulatory		10,000	
19	Engineering			
20	Other			
21	Legal		25,000	
22	Travel		3,000	
23	Other non-labor		2,000	
24	Sub-Total			40,000
25	Total			165,000
26	Amortization Period			3
27	Test Year expense			$55,000

Molokai Public Utilities, Inc.
General & Administrative
Test Year Ending June 30, 2010

Line #	Description	Ref: [1]	6/30/04 [2]	6/30/05 [3]	6/30/06 [4]	6/30/07 [5]	6/30/08 [6]	Test Year 6/30/10 [7]
	MPU Direct Expenses							
1	Travel		$41	$1,388	$473	$472	$419	$559
2	Equipment Rental		32	108	118	109	2,239	521
3	Admin Office Supplies		1,420	1,070	1,381	795	439	1,021
4	Telephone				269	412	483	388
5	Internet Connect		35	134	62	98	78	81
6	Cellular		1,959	1,434	1,321	1,119	698	1,306
7	Training		107		331	171	157	192
8	Postage		2,121	676	880	1,177	723	1,115
9	Advertising & Promo		125	500	500			
10	Other		31	50				
11	Sub-Total							5,183
	MPU Direct Charges Previously Charged from MPL thru a/c # 610							
12	Travel				2,123	2,608	5,754	3,495
13	Postage				1,655	3,172	1,180	2,002
14	Communications				1,923	1,828	1,306	1,686
15	Administrative				610	520	297	476
16	Other				524	697	208	476
17	Sub-Total							8,135
18	Total		$5,871	$5,360	$12,170	$13,178	$13,981	$13,318

CA-120
Docket No. 2009-0048

Molokai Public Utilities, Inc
Revenues
Test Year Ending June 30, 2010

Line #	Description	[1] Meter Size	[2] # of Cust Bills Or Water Usage	[3] Base Rates Effective 8-1-03: Monthly Rate	[4] Base Rates Effective 8-1-03: Annual Revenue [2]*[3]	[5] Base Rates Effective 8-1-03: Total Revenue	[6] Temporary Rates Effective 9-1-08: Monthly Rate	[7] Temporary Rates Effective 9-1-08: Annual Revenue [2]*[6]	[8] Temporary Rates Effective 9-1-08: Total Revenue	[9] Proposed Rates: Monthly Rate	[10] Proposed Rates: Annual Revenue [2]*[9]	[11] Proposed Rates: Total Revenue
1	Rate Increase Percent									109.369%		
	Monthly Customer Charge											
2	# of Customers (250)	5/8" Meter	2,350	$11.25	$ 26,438		$11.25	$ 26,438		$24.00	$56,400	
3	# of Customers (251)	1.0" Meter	12	$15.00	180		$15.00	180		$31.00	372	
4	# of Customers (253)	1.5" Meter	12	$22.50	270		$22.50	270		$47.00	564	
5	# of Customers (254)	2.0" Meter	36	$37.50	1,350		$37.50	1,350		$79.00	2,844	
6	# of Customers (255)	3" Meter	26	$75.00	1,950		$75.00	1,950		$157.00	4,082	
7	# of Customers (257)	6" Meter	60	$225.00	13,500		$225.00	13,500		$471.00	28,260	
8	# of Customers (258)	8" Meter	24	$375.00	9,000		$375.00	9,000		$785.00	18,840	
9	Sub-Total		2,520			$52,688			$52,688			$111,362
										109.474%		
	Water Usage Charge											
10	Water Use for Test Year (000 gallons)		103,900	$ 3.18	330,402		$ 6.04	627,556		$6.6613	692,109	
11	Water Delivered to Wai'ola at Kualapuu Tap		22,900	$ 1.1250	25,763		$ 1.1250	25,763		$2.3566	53,966	
12	Total Water Sales		126,800									
13	Usage Revenue					356,165			653,319			746,075
14	Total Revenue					$ 408,853			$ 706,007			$ 857,437
15	Revenue Increase To Temporary Rates							$297,154				
16	Revenue Increase over Temporary Rates									$ 151,430		
17	Total Revenue Increase from Present Rates										$448,584	

CA-121
Docket No. 2009-0048

Molokai Public Utilities, Inc.
Revenue Phase In
Test Year Ending June 30, 2010

		[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]	[11]	[12]	[13]	[14]
			# of Cust Bills	Base Rates Effective 8-1-03			Temporary Rates Effective 9-1-08			PHASE 1 -- Revenue Increase			Phase 2 - Full Proposed Rates		
Line #	Description	Meter Size	Or Water Usage	Monthly Rate	Annual Revenue [2]*[3]	Total Revenue	Monthly Rate	Annual Revenue [2]*[6]	Total Revenue	Monthly Rate	Annual Revenue [2]*[9]	Total Revenue	Monthly Rate	Annual Revenue [2]*[12]	Total Revenue
1	Rate Increase Percent												109.369%		
2	Phase 1 Revenue Increase Percent over "Present Rates"									75.0%					
	Monthly Customer Charge														
3	# of Customers (250)	5/8" Meter	2,350	$11.25	$ 26,438		$11.25	$ 26,438		$21.00	$ 49,350		$24.00	$56,400	
4	# of Customers (251)	1.0" Meter	12	$15.00	180		$15.00	180		$27.00	324		$31.00	372	
5	# of Customers (253)	1.5" Meter	12	$22.50	270		$22.50	270		$41.00	492		$47.00	564	
6	# of Customers (254)	2.0" Meter	36	$37.50	1,350		$37.50	1,350		$69.00	2,484		$79.00	2,844	
7	# of Customers (255)	3" Meter	26	$75.00	1,950		$75.00	1,950		$137.00	3,562		$157.00	4,082	
8	# of Customers (257)	6" Meter	60	$225.00	13,500		$225.00	13,500		$410.00	24,600		$471.00	28,260	
9	# of Customers (258)	8" Meter	24	$375.00	9,000		$375.00	9,000		$683.00	16,392		$785.00	18,840	
10	Sub-Total					$52,688			$52,688			$97,204			$111,362
11	Percent Increase in Usage Charges												109.474%		
	Water Usage Charge														
12	Water Use for Test Year (000 gallons)		103,900	$ 3.18	330,402		$ 6.04	627,556		$5.7910	601,685		$6.6613	692,109	
13	Water Delivered to Wai'ola at Kualapuu Tap		22,900	$ 1.1250	25,763		$ 1.1250	25,763		$2.0487	46,915		$2.3566	53,966	
14	Total Water Sales		126,800												
15	Usage Revenue					356,165			653,319			648,600			746,075
16	Total Revenue					$ 408,853			$ 706,007			$ 745,804			$ 857,437
17	Revenue Increase To Temporary Rates			Line 16, Col 8 - Col 5				$297,154							
18	Phase 1 Revenue Increase			Line 16, Col 11 - Col 8							$ 39,797				
19	Phase 2 Revenue Increase			Line 16, Col 14 - Col 11									$ 111,633		
20	Total Revenue Increase from Present Rates			Line 16, Col 14 - Col 5											$448,584
21	Percent of Phase 1 Increase above Present Rates			Line 16, (Col 11 - Col 5) / Col 5								82.4%			
22	Percent of Phase 1 Increase above Temporary Rates			Line 16, (Col 11 - Col 8) / Col 8								5.6%			
23	Percent of Total revenue increase over Present Rates			Line 16, (Col 14 - Col 5) / Col 5											109.7%
24	Percent of Phase 2 Increase over Phase 1 Revenue Level			Line 16, (Col 14 - Col 11) / Col 11											15.0%
25	Effective Revenue Increase from Phase 1 Revenue			Line 18 / (Line 18 + Line 1)								26.28%			

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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing **DIVISION OF CONSUMER ADVOCACY'S DIRECT TESTIMONY, EXHIBITS, AND WORKPAPERS** was duly served upon the following parties, by personal service, hand delivery, and/or U.S. mail, postage prepaid, and properly addressed pursuant to HAR § 6-61-21(d).

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DATED: Honolulu, Hawaii, January 13, 2010.